Wachovia Corporation

2009 Supervisory Plan

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# Table of Contents:

I. Introduction and Overview 3

II. Key Supervisory Issues 4

III. Supervisory Strategy
- Credit Risk 8
- Market Risk – Trading Book 15
- Market Risk – Banking Book 19
- Operational Risk 23
- Legal and Compliance Risk 32

IV. Other Categories
- Basel II / Capital Management 36
- Financial Condition 41

V. Tables:
- FRB Examination Program (imbedded object) 43
- Knowledge Gap Table 44

VI. Appendices:
   a. OCC Examination Plan (imbedded object) 45
   b. MIS 46
   c. Key Meetings 53

VII. Risk Assessment Narratives
- Institutional Overview 69
  Executive Summary 69
  Corporate Strategy 70
  Corporate Governance 79
  Material Business Lines (imbedded object) 84
  Significant Nonbanks 84
  Key Financial Markets 87

- Risk Assessment Summary 88
  Summary Assessment of Inherent Risk 88
  Inherent Risk by Type  
  Summary Assessment of Risk Management and Controls 92
  Risk Management by Type 92

VIII. Consolidated Rating Matrices 97
I. Introduction/Overview

This document outlines our Supervisory Strategy for the period of September 30, 2008 to year-end 2009. Wachovia Corporation (Wachovia) has been designated a watch list company by the LFI and our enhanced supervisory plan will be directed at addressing the weaknesses in overall risk management and compliance with the Memorandum of Understanding (MOU). Also, we will continue to complete our normal supervisory activities and required exam work in accordance with the consolidated supervision guidance.

Compliance with the MOU and Risk Management:

Key areas of focus will include reviewing the adequacy of board and senior management oversight and management’s success in implementing the changes recommended in the forth coming external consultants review related to the MOU. The plan will include targeted examinations of risk management areas where weaknesses have been identified including liquidity/capital management, credit risk governance management, treasury group management, counterparty credit, and compliance/legal risk. We will closely monitor capital/liquidity and complete examination work to insure that parent and consolidated funds management is adequate and meets the needs of the corporation in these difficult times. We will increase our credit related continuous monitoring efforts and will track high risk loan books. We will review and challenge the stress testing results that are required to dimension the losses with certain credit books. We will have dedicated resources for consumer credit and commercial credit, an increase in staffing from previous supervisory efforts. With respect to financial analysis, we will be reviewing performance aggressively relative to strategic plans submitted in the MOU and adjusting supervisory ratings as needed depending on results. We expect to send quarterly correspondence to the company discussing the current condition and performance on the regulatory agreement.

Also, during the market disruption, certain monitoring activities have developed and these activities will continue until Wachovia and the overall financial markets stabilize. The following bullets summarize the continuing activities:

- Weekly or daily disruption updates as needed
- Weekly or daily liquidity updates as needed
- Monthly or more frequent earnings and budget meetings
- Monthly or more frequent updates on capital projections
- Bi-weekly meetings with investment bank finance
- Frequent interaction with the newly hired CEO

Lastly, the MOU will require an analysis of execution errors. This review should encompass the legal and reputational issues with the Muni bid rigging investigation and other items. It is expected that an enforcement action will be placed on the corporation related to the Muni Bid rigging case. We will monitor compliance with any future agreement and closely follow the casa de cambio investigation. Any required remediation actions will be tracked during the time period covered by this plan.

Core Continuous Monitoring and Examinations:

In addition to the work required with the MOU and deteriorating condition of the company, our program will continue to complete the traditional continuous monitoring, control validation reviews, and mandated Edge Act examinations. Supervisory team members will continue to perform ongoing monitoring of key risks and emerging issues across significant business lines and support activities. Examination work will leverage the efforts of internal audit and the functional/primary regulators when appropriate. The plan also lists several joint/concurrent reviews with the Office of the Comptroller of
the Currency (OCC), focusing on Basel II examination work, certain credit portfolio segments, and compliance with the Market Risk Amendment.

To meet the consolidated supervision guidance, the Wachovia supervisory team will conduct the required parent/nonbank liquidity examination and complete an independent review of the internal audit function. Also, we will continue to monitor key business lines and will participate in the OTS mortgage review on GoldenWest. Our program will continue to review Wachovia’s four main lines of business: the General Bank, Wealth Management, Capital Management, and the Corporate and Investment Bank (CIB). These four businesses are overseen by the parent financial holding company and centralized treasury, risk management, human resources, legal, audit, and information technology functions. The strength of some of these centralized functions has not been adequate in certain instances, especially with treasury risk management and some areas under the chief risk officer. The review of treasury risk management, compliance, and credit risk governance will update our views on these key areas which have experienced problems recently.

II. Key Supervisory Issues

The 2008 RAP outlines the key supervisory issues facing Wachovia. Wachovia’s inherent risk profile has increased to high with the significant deterioration of the real estate markets in California and Florida. The GoldenWest book is heavily dependent on collateral values as both a means of repayment and as a risk mitigant. The potential for contagion is probable to other large books including the auto and commercial real estate and the level of required economic capital for credit has increased significantly. Also, the liquidity, operational, and compliance inherent risk assessments are considerable. We have rated overall risk management as fair, primarily driven by weaknesses in board and senior management oversight. Further focused work will continue in the various risk buckets to re-evaluate line management.

Risk Management and Compliance with the MOU

The following items are the main provisions of the draft MOU the corporation will enter into in August:

Conduct an External Review of Board of Directors Governance
Conduct an External Review of Corporate and Business Line Risk Management
Review Execution Errors and Address Weaknesses as Needed
Update Capital Planning and Contingency Funding
Complete Stress Testing of High Risk Portfolios
Submit an Updated Budget and Strategic Plan

Compliance with the MOU will require the company to complete several process reviews and it is our expectation that the reviews will result in significant changes to business processes. Our review of compliance with the MOU will be in two parts: 1) ensure the proposed changes to processes will address the weaknesses, and 2) ensure the changes are implemented effectively. The company under new CEO Steel will want to move quickly to show compliance with the MOU and our efforts will ensure the company has made the necessary changes and demonstrates sustained performance.
Corporate Governance

Wachovia has recently experienced several noteworthy loss events and publicized investigations, which contributed to the retirement of the previous CEO. While not considered systemic, these events are indicative of a corporate governance and risk management culture in need of improvement. In recognition, the board has identified a need for a corporate governance review, which will be performed by a third-party over the second half of 2008. The top priority of this review will be an evaluation of the appropriateness of current business and risk management structures, with particular focus on roles and responsibilities. Additionally, senior leadership has undertaken a Risk-Related Corporate Governance Initiative (RRCGI) to evaluate the operational and logistical effectiveness and consistency of risk management practices. As a part of our ongoing evaluation of compliance with the Memorandum of Understanding (MOU), examiners will gain an understanding of internally and externally identified weaknesses or enhancement opportunities, and monitor management’s efforts to strengthen practices and comply with the elements of the MOU.

Credit Quality

While the majority of the market disruption losses have been absorbed, credit losses are expected to swell substantially in 2008 and 2009. This will stretch credit risk management resources while mitigation work will continue to increase. This problem is exacerbated by the issues with aggregating exposures, which makes stress testing more difficult. Future losses will be centered in the GoldenWest portfolio, but it is expected that other portfolios will deteriorate if economic conditions decline. Our supervisory plan will include concurrent examinations of overall credit risk governance and the adequacy of the loan loss reserve. Also, we will participate in the OTS examination of GoldenWest, and key loan reviews conducted by the OCC. We will use enhanced continuous monitoring activities to stress testing submissions from the MOU. We will monitor risk mitigation strategies including the refinancing options being offered to move the option ARM product.

Capital

While risk-based capital levels are well above well capitalized and the firm’s internal capital guidelines, we have rated consolidated capital as Fair or “3” due to earnings issues and credit quality concerns. Since September 30, 2007, the company has raised significant capital funds to absorb potential losses. In December 2007 and January 2008 Wachovia raised a combined $5.8 billion in preferred capital and in April 2008 Wachovia raised an additional $8.6 billion of common and convertible equity. To preserve capital, the corporation has cut the dividend and is adopting strategies to shrink the size of the balance sheet. This supervisory plan notes the need for frequent and in depth continuous monitoring of capital levels and planning. Capital planning will be included in our liquidity management review. In addition, the MOU will require management to update policy guidelines that will need to be monitored. We also will expect further stress analysis with capital positions and this plan will review and analyze these stress tests.

Liquidity

We currently view consolidated liquidity as adequate to meet the funding needs of the corporation. In addition, throughout the market disruption, management has opportunistically raised funds, maintained excess funds at the parent, and appropriately worked to minimize exposure to overnight funding markets. However, the liquidity risk profile is considerable with market access negatively affected by the weakened financial condition of the corporation. Also our most recent liquidity examination with the OCC noted issues with MIS, the contingency planning, systems, and key man risk. Our plan will include a liquidity examination and treasury group risk management examination to insure adequate
progress is made on liquidity management concerns. A particular emphasis will be placed on the contingency funding plan as well as parent and nonbank liquidity. We will also continue the enhanced monitoring that began with the market disruption.

**Management of the Treasury Investment and Nonbank Investments**

Our annual letter emphasized the need to ensure appropriate governance of all risk taking activities of the firm. The lack of adequate independent risk management over investment decisions taken by the treasury group was emphasized by both this Reserve Bank and the OCC. This issue is further complicated by the lack of a permanent Treasurer due to his resignation. Our plan includes a review of the treasury function, as noted previously, coupled with a nonbank investment review. Each of these exams will include a review of investment decisions to ensure appropriate approvals were obtained and adequate analysis was completed prior to the commitment of capital. We will also review management’s processes for monitoring performance of investments after booking.

**Financial Performance**

The financial performance of the company is less than satisfactory. Component ratings for Financials are:

- **Capital**: 3
- **Asset Quality**: 3
- **Earnings**: 3
- **Liquidity**: 2

Performance of the company has been volatile in the first two quarters of 2008 and it is expected that performance will continue to suffer. As a result, our plan will include enhanced continuous monitoring of financial performance. We will re-analyze the rating on a quarterly basis and this review will be reflected in the monthly reports due 40 days after quarter-end (11-08, 2-09, 5-09, 8-09, 11-09). Of particular concern is earnings and liquidity as these component ratings are at risk of downgrade.

**Expense Reductions**

The company has announced an expense reduction program that will cut $1.5 billion from run rate expenses through 2009. Reductions will come from layoffs, delayed projects, the closing of the wholesale mortgage business in GBG, and the slowing branch expansion. Our concerns will be with potential cuts to the risk management infrastructure and staffing related to controls. We have received a breakdown of personnel cuts and project delays and it appears no significant cuts will be made to key projects or control groups. We will continue to monitor the program to ensure key controls are not affected by the expense reduction program.

**Compliance and Legal Issues**

We currently view compliance risk management as adequate, but the issues with the Muni big rigging and the casa de cambio investigation raise our supervisory concerns. These concerns are tempered somewhat by the actions that the new compliance risk manager has taken to improve the program. Going forward, we will conduct a review of overall consolidated compliance risk management to judge the progress that new management has made in refining the enterprise-wide compliance risk program.
Basel II Preparedness

Basel II will receive increased supervisory attention in 2009 as the long anticipated parallel tests begin in the fourth quarter. The supervisory team, in conjunction with the OCC, will continue to monitor progress on the multiple work streams and underlying projects the company has in place to prepare for Basel II, including the forthcoming formal “Implementation Plan” and gap analysis. To accomplish this, we have a series of credit related model exams and monitoring efforts. We will continue to assess the quality and effectiveness of the Corporate Operational Risk Management (CORM) function, business risk management practices, and changes to standards resulting from the gap assessment. Additionally, we will continue monthly meetings with the project management office (PMO) to review the status of the various projects and the audit project office (APO) which is overseeing the Basel PMO. This will be to ensure independent oversight of the work the group is doing. It will also serve to validate the progress of the Basel PMO team as reported in their MIS to both the regulators and senior management. Examiners will also conduct a joint target review of the new multiple units of measure AMA capital model to evaluate compliance with AMA standards, data integrity and internal validation efforts. Each affected risk discipline will have specific areas that it will monitor. These are noted in the credit, market, and operational risk sections.
III. Supervisory Strategy

Credit Risk

The credit supervisory activities in 2008/2009 address the primary credit issues identified in our RAP and RFI letter, focusing our resources on the highest risk portfolios, credit risk governance processes, and BASEL initiatives. For other areas/portfolios, we will continue to leverage the work of other regulators and the findings of Wachovia’s internal Credit Risk Review and Audit. In addition, our annual participation in the OCC-led Shared National Credit program will supplement credit risk knowledge gained in continuous monitoring. Areas of focus include:

- Allowance for Loan and Lease Losses
- Credit Risk Management and Governance
- Structured Finance-Retail and CLO Warehouses
- Leveraged Finance
- Commercial Real Estate
- Mortgages
- Basel II preparedness

Our supervisory plan for credit is detailed below. It is divided into tradition credit reviews and Basel II related examination and focused ongoing supervision.

Traditional Credit Examinations

Commercial

1) Targeted Review of the ALLL Methodology and Adequacy [FRS Lead, OCC/OTS Participation]

Background:
Wachovia has experienced a significant deterioration in credit quality, primarily in loan portfolios secured by residential properties. Reserving methodologies for some portfolios that were based on historical roll-rates have been discarded in favor of forward looking econometric models that attempt to forecast customer defaults and loss severity based on projected declines in home price in particular MSA’s. There have been other changes in methodologies given the dramatic change in the economic environment, and external market concerns about the extent of losses inherent in the portfolio and the adequacy of reserves is high.

Objectives:
- Assess reasonableness and appropriateness of policies, procedures and methodologies governing the establishment of reserves
- Ensure adequacy of reserve levels
- Assess compliance with Interagency Guidance
- Review impaired loans to test for compliance with FAS 114
- Focus will be on portfolios experiencing the most deterioration and the use of models in the reserve process
- Review of documentation, controls, and governance and the validation process around key parameters such as PDs, LGDs, and EADs that drive the ALLL numbers. As these risk factors are also inputs into the Basel calculator an understanding of the quantification of these factors for ALLL vs. Basel.
2) Targeted Review of Credit Risk Management and Governance [Concurrent OCC/FRS Examination]

**Background:**
Asset quality has significantly declined over the past year as industry wide credit concerns impacted Wachovia’s portfolios as well. This deterioration has been evidenced by the increasing trend of mortgage delinquencies and other problem credits. Consequently, the need for strong credit risk management is heightened.

**Objectives:**
- Ensure compliance with the Memorandum of Understanding
- Focus on house limits, concentration limits, earnings, and capital limitations placed on various portfolios
- Review credit risk management processes across the company
- Assess credit risk governance processes with particular emphasis on management MIS and management ability to aggregate risk across the company
- Review any stress testing and credit mitigation processes and how these are centrally managed
- Assess the effectiveness of changes made as a result of lessons learned during the 2007 market disruption

3) Structured Finance – Retail and CLO Warehouses [Control Validation - OCC led, FRS participation]

**Background:**
This examination will cover risk presented by short-term warehouses that fund commercial and consumer related credit destined for the structured products market. This financing is provided by VFCC or at the bank level. Activity will be dependent on whether liquidity returns to these markets: if markets remain closed the risk will be retained on the balance sheet, if distribution resumes then the focus of the exam will be on new underwritings.

**Objectives:**
- Review adequacy of approval processes, monitoring, reporting and limits on commitments and exposures.
- Controls over exposures should be evaluated along with MIS reports to monitor the changes in underwriting.
- Assess level of risk remaining on the balance sheet from prior commitments. Warehouses held $7 billion in non-mortgage consumer assets and $14 billion in CLO exposures.

4) Leveraged Finance [Control Validation Examination-OCC led, FRS participation]

**Background:**
This review will supplement the SNC review by focusing on the highest risk non-SNC loans in the Investment Bank portfolio. It is a follow-up to last year’s leveraged lending review. These exposures represent a relatively high proportion of the risk in the commercial portfolio and quality could deteriorate in a declining economic environment.
Objectives:
- Evaluating management’s response to 2008 findings
- Evaluate portfolio quality and risk rating accuracy
- Assess controls around the underwriting process
- Review implementation of risk rating scorecards and controls around overrides.

5) Commercial Real Estate Review [Follow-up Examination – OCC led, FRB Participation]

Background:
This represents a follow up examination to a 2008 review that resulted in several MRA’s involving accuracy of risk ratings and credit administration. It will focus on residential builders and condo projects given the deterioration experienced to-date, but if evidence of deterioration in income properties becomes evident more of these loans will be added to the sample. The level of problem assets in this portfolio has increased exponentially over the last few quarters due to declines in residential property values.

Objectives:
- Ensure risk rating accuracy and timeliness of downgrades. This is relevant to our Basel work as the scorecards are a critical driver in risk rating transparency for Basel.
- Assess RE valuation process
- Review appropriateness of reserves and charge-offs
- Adequacy of servicing and account management
- Review implementation of risk rating scorecards and quality assurance

6) Shared National Credit Review [Mandated Examination – OCC-led, RB Participation]

Background:
This mandated interagency exam is an annual review of the largest agented credits. Wachovia is the 4th largest shared nation credit agent and has approximately 20 obligors over $1 billion supporting the highly complex designation. For 2009, the OCC anticipates 600 facilities agented by Wachovia with a sample of approximately 200.

Objectives:
The SNC program assesses the accuracy and timeliness of risk ratings, as well as underwriting and structuring trends of these agented credits. The assessment is done at the agent bank, thereby avoiding duplication of reviews in other banks where pieces of the deals are held.
Retail

1) Targeted Review of Golden West [OTS-led, RB Participation]

**Background:**
The downturn in the housing market has resulted in significant deterioration in asset quality of Golden West. Legacy Golden West (now Wachovia FSB) originated Pick-a-Payment option ARMs. Now about $60 billion of these loans are on the national bank’s books.

**Objective:**
We have agreed to participate with the OTS annual examination of the FSB. An exam in which we participated in April focused on collections/loss mitigation. This exam will focus on the asset quality of the portfolio, including loss forecasting practices.

Event/Issues Driven Continuous Monitoring - Traditional Credit

**Continuous Monitoring of response to MOU and credit stress testing submission**

**Background:**
At the August 2008 board of directors meeting we plan to discuss our assessment of the corporation and present an Memorandum of Understanding, which will address the efficacy of credit risk management as well as require stress analysis of higher risk credit portfolios. We will monitor progress with the items in the MOU on a quarterly basis to ensure compliance with provisions in the agreement.

**Objective:**
To dimension the extent of potential write downs and to understand vulnerabilities, the company must periodically stress at risk portfolios and sub portfolios. Our monitoring should verify that the stress tests encompass both geographic and product concentrations and that, based on the results, mitigation strategies are developed to reduce credit risk.

Basel II

Basel II Credit Examinations

1) Basel Standards IRB Wholesale Review [FRS/OCC Joint]

**Background:**
Examiners need to ensure that Wachovia has closed any gaps, and addressed any issues that have been risen via the BQS, AIRB Horizontal, and continuous monitoring activities.

**Objective:**
Evaluate compliance with Basel IRB Wholesale Credit Standards.
- Follow up on those gaps and outstanding issues noted in the AIRB Horizontal review and those noted following completion of the BQS documents. Review should include: (1) Governance, Control & Use, (2) Internal Risk Rating System, (3) Data Management &
2) **Targeted Review of IRB Mortgage Models-Segmentation and Parameter Estimation [FRS/OCC/OTS Joint]**

**Background:**
Wachovia has significantly lagged peers in Basel-compliant retail model development, and has been unable to adhere to their own project plan for producing such models. As a result, the model development process may be subject to errors or lack of adequate testing caused by time constraints. A meticulous and measured review of each aspect of the segmentation and parameter estimation will be necessary to ensure the models developed for the parallel run meet the established standards, and that the bank has adequate time to address any regulatory issues prior to the beginning of the parallel run.

**Objectives:**
To ensure that all aspects of the primary models used by the bank comply with the standards set forth in the Basel final rule.
- Review compliance with Basel definition of default.
- Ensure that the segmentation is differentiating risk and compliant with all Basel standards.
- Review the parameter estimation for probability of default, loss given default, and exposure at default (as applicable) for compliance with Basel standards.
- Ensure that the data used for segmentation and parameter estimation complies with Basel standards, especially with respect to the modified definition for economic downturn conditions. The company must be able to demonstrate compliance with the standard based on data values.
- Ensure that all aspects of the parameter estimation process are well documented, including all roles and responsibilities for generating and verifying results.
- Ensure that the parameter estimation models as well as the segmentation process/results are validated by an independent group in compliance with Basel standards.

3) **Targeted Review of IRB Home Equity-Segmentation and Parameter Estimation [FRS/OCC/OTS Joint]**

**Background:**
Wachovia has significantly lagged peers in Basel-compliant retail model development, and has been unable to adhere to their own project plan for producing such models. As a result, the model development process may be subject to errors or lack of adequate testing caused by time constraints. A meticulous and measured review of each aspect of the segmentation and parameter estimation will be necessary to ensure the models developed for the parallel run meet the established standards, and that the bank has adequate time to address any regulatory issues prior to the beginning of the parallel run.

**Objectives:**
To ensure that all aspects of the home equity models used by the bank comply with the standards set forth in the Basel final rule.
- Review compliance with Basel definition of default.
- Ensure that the segmentation is differentiating risk and compliant with all Basel standards.
- Review the parameter estimation for probability of default, loss given default, and exposure at default (as applicable) for compliance with Basel standards.
- Ensure that the data used for segmentation and parameter estimation complies with Basel standards, especially with respect to the modified definition for economic downturn conditions. The bank must be able to demonstrate compliance with the standard based on data values.
- Ensure that all aspects of the parameter estimation process are well documented, including all roles and responsibilities for generating and verifying results.
- Ensure that the parameter estimation models as well as the segmentation process results are validated by an independent group in compliance with Basel standards.

4) Targeted Review of IRB Issues raised in previous retail model target exams [FRS/OCC/OTS Joint]

**Background:**
The segmentation process and parameter estimation models need to be as stable as possible and compliant with Basel standards prior to entering the parallel run. A careful review of the changes made subsequent to the initial target exam will be necessary to ensure compliance.

**Objectives:**
To ensure that all aspects of the primary models used by the bank comply with the standards set forth in the Basel final rule.
- Review all steps the bank has taken to address issues/shortcoming cited in the earlier target exams of the retail models.
- Ensure that model and process documentation has been updated to reflect any changes made in response to regulatory findings.
- Verify that the changes made to address regulatory findings have been properly validated by an independent validation group.

Event/Issue Driven Continuous Monitoring Activity - Basel

**Basel Wholesale Implementation Monitoring (pre-parallel) [FRS/OCC Joint]**

**Background:**
Ongoing supervision of the bank’s implementation of Basel IRB Wholesale (pre-parallel) in order to help stay apprised of the bank’s implementation activities, as they move forward with their preparation for Basel II certification.

**Objectives:**
Monitor the company’s progress against its implementation plan.
- Review monthly PMO status reports and attend monthly PMO status meetings to ensure that milestones are being met in accordance with plan timeline.
- Discuss progress with FRS Wholesale Qualification team to identify best practices and to ensure the all qualification issues are being identified and addressed.
- Ensure that PMO documentation is update and posted to the Sharepoint site in a timely manner.
**Basel Retail Implementation Monitoring [FRS/OCC/OTS Joint]**

**Background:**
The bank is a mandatory bank that has fallen behind due to its current lack of Retail IRB models. By moving its parallel run to 10/2009, the bank has diminished its flexibility. Thus, we need to ensure that the bank stays on course.

**Objectives:**
Monitor the company’s progress against its implementation plan.
- Review monthly PMO status reports and attend monthly PMO status meetings to ensure that milestones are being met in accordance with plan timeline.
- Discuss progress with FRS Retail Qualification team to identify best practices and to ensure the all qualification issues are being identified and addressed.
- Ensure that PMO documentation is update and posted to the Sharepoint site in a timely manner.

**Regulator Basel Coordination Ongoing Activity [FRS/OCC/OTS Joint]**

**Background:**
With the change in the regulatory structure resulting from the Company’s decision to move the bulk of the mortgage operations/assets under an OTS supervised savings bank, and the newness of the Basel requirements, it will be extremely important to coordinate the development and implementation of supervisory activities, to ensure all requirements are met and standards are consistently applied.

**Objective:**
To ensure that the company receives consistent information regarding Basel requirements from all regulators and to prevent non-compliance with Basel requirements that might occur if subsidiary requirements are not effectively communicated.
- Meet with FRS Retail Qualification Team to ensure that Basel requirements for subsidiaries are understood.
- Host joint meetings with OTS and OCC to ensure that each agency has a clear understanding of Basel requirements and each agency’s regulatory oversight responsibilities.
- Review implementation plans for subsidiaries to ensure compliance with Basel standards, and track progress against those plans.
Market Risk

The 2008/9 Wachovia Supervisory Plan for the trading area reflects continued focus around the lingering effects of the market disruption and subsequent changes in strategy. Examination and ongoing supervisory activities scheduled for 2008/2009 will target market risk controls, products discussed for expansion, and infrastructure. While market risk remains moderate, the profile has changed considerably over the past year. There is no market for structured products and little appetite from senior management to reenter those markets should they open. Many positions have been moved out of trading, either through sale or transfer to Held for Investment. VaR levels are considerably lower than early 2008 levels as a result of these actions. Market risk controls have proven effective, but governance weaknesses noted in the RAP will require scrutiny. While progress has been made, P/L attribution remains insufficient. Consequently, management will need to provide regular updates to regulators to ensure this issue gets resolved.

Legal Entities & the Primary Regulator:
CIB manages business lines on a functional basis and legal entity reporting is completed as needed. As such, risks are reported and managed on a line of business basis. The primary booking entities for Wachovia are the bank and the broker dealer. Additional activity is booked in the parent company, WSIL (Edge Corp), WPET (Prop equity trading nonbank sub) and a few smaller entities outside the bank. The two major divisions of CIB, Fixed Income and Equity Divisions, use both bank and nonbank booking entities.

Supervisory Activities:
Given the risks identified in the Risk Assessment and the activity booked outside of the bank, the strategy proposes coverage through examination work and ongoing monitoring. Ongoing monitoring is intended to capture changes in risk profile (position size, complexity, components of price risk, diversification, and earnings stability), strategic risks, management reporting, governance structures, new product plans and introduction, high-level policies and limits, and current events. Examinations provide a deeper view into activities, transaction specifications, on-line reports and monitoring, front office trader perspectives, IT limitations, and trade processing. The plan’s examinations are structured to complement the coverage of the OCC. Specifically, concurrent reviews with the OCC are necessary as oversight functions bridge both banking and nonbanking legal entities and duplication of effort should be avoided to the extent possible. Request letters and meeting schedules will be coordinated so that both agencies can attend.

Market risk – Trading Book Examinations

Market Risk Management [Control Validation Review-Concurrent FRB/OCC examination]

Background:
Market Risk Management remains an annual review based on the level of trading activity, the continued evolution of market risk management, new products and quantitative models, and ongoing criticisms. This includes an assessment of compliance with the quantitative and qualitative requirements of the Market Risk Amendment. Weaknesses noted from the March 2008 examination will be revisited, including insufficient P/L attribution, inadequate stress testing, and specific risk modeling.

Objectives:
The targeted examination will assess:
- Any key changes in risk and controls since the 2008 examination, including new models, new VaR proxies, revised limit monitoring, and changes to stress testing.
- Implementation of corrective actions with regard to Matters Requiring Attention from the 2008 examination
- General compliance with the requirements of the Market Risk Amendment (MRA)
- Assess firm plans and progress with respect to key incremental aspects of new rule:
  - Development and control processes surrounding firm-wide trading definition
  - Enhancement of existing specific risk VAR models to meet new requirements
  - Enhancement of existing general VAR models to meet new qualification requirements
  - Intentions to seek dealer status for tranch products that may otherwise be put into securitization framework for capital purposes
  - Any Enhancements to backtesting processes
  - Approach toward Incremental Default Risk Modeling
  - Processes for seeking new model/new product regulatory approvals.
- Staffing adequacy given the level of risk and complexity of activity
- The status of the CIBT projects to improve the technology infrastructure of the business line
- Testing Regulatory Capital calculations and reconciling those calculations to source documentation
- Comparing traded products to trader mandates

**Equity Products** [Control Validation Review- Concurrent FRB OCC examination]

**Background**
Since our previous examination in March 2007, proprietary trading has expanded with two desks in Europe and a refocus of the Convertible Bond Arbitrage desk to a more traditional trading strategy (previously taking long equity risk outside traditional arbitrage). Additionally, management is expecting to grow its hedge fund-of-funds financing activities, an area highlighted by inconsistent due diligence at our previous review. Management is currently developing a model to address this issue. Revenues continue to grow and will become a more significant contributor absent the structured products revenue. VaR has consistently measured between $7 and $8 million driven by proprietary trading. Trading is conducted in both the bank and holding company.

**Objectives**
This examination will consider all aspects of trading including front, middle, and back office, risk management, legal, compliance, and finance. Specifically, we will revisit hedge funds activities, proprietary trading, and equity structured products. While P/L attribution is further along within Equities than other divisions due to Galaxy, we will assess the quality and depth of this process. Efforts to address previous recommendations will be reviewed also.

**Counterparty Credit Risk** [Control Validation Review – Concurrent FRB/OCC examination]

**Background:**
Counterparty credit exposures remain limited as compared to peers. Exposures to riskier counterparties (i.e., hedge funds) are relatively nominal and have dwindled throughout the market disruption. Collateral management is sound and weaknesses in infrastructure and MIS have been mitigated through overstatement of exposures due to poor netting capabilities and thus overcollateralization. CRISP/Adaptiv is now live for most applications and early indications are it will alleviate many of these past issues. Reporting capabilities will hopefully be enhanced as management has struggled to prepare ad-hoc requests as the markets have deteriorated. The quality of Potential Future Exposure calculations remain a concern and are not currently included in CRISP/Adaptiv. Progress around full revaluation is unclear.
Objectives: The target examination should assess:
- Any key changes in risk and controls since the 2007 examination
- Implementation of corrective actions with regard to Matters Requiring Attention from the 2007 examination
- Implementation of the Adaptiv system and its corresponding enhancements to CCR management
- CCR policy and procedure effectiveness
- Risk factor and stress test methodologies, which were undergoing changes at the prior examination to improve accuracy and transparency.
- Credit approval processes
- Collateral management
- Basel preparedness

Wachovia-Commodities [Discovery Review-Concurrent FRB/OCC examination]

Background:
Commodities is relatively small relative to the size of other trading businesses. Consequently, little time has been spent by examiners reviewing this activity. However, management has expressed interest in expanding this business. Revenues have risen significantly over the past two years. Additionally, management recently brought the Odyssey joint venture in-house and has considered taking physical delivery of natural gas. Currently, Wachovia is most active in natural gas derivatives and oil. VaR for this business runs between $500,000 and $900,000. Activity is conducted in both the bank and holding company.

Objectives:
- We intend to understand the trading strategies and risks employed by these trading desks. This includes not only current activities, but also planned expansion. Understanding the impact of assuming full control of Odyssey will be important as well. The scope includes assessing current risk metrics, determining whether they provide a comprehensive measure of risk, and if the infrastructure can support additional trading. We will also consider P/L attribution, middle and back office functions, and information technology issues.

Issues Driven Continuous Monitoring

Model Review

Objectives:
Maintain an ongoing knowledge of new pricing and VaR models and the quality of the validation process.

Execution:
Routinely select new models as they appear in the model inventory and read model validation documentation for completeness, new risk introduced, soundness of theory, and effect on VaR. This should be executed by a department quantitative analysis resource. A semi-annual memorandum should summarize this review coverage and findings as well as highlight any issues to be resolved during the concurrent Market Risk Exam.
Contact:
Adam Litke, Market Risk Manager

IT Development Update Meetings

Objective:
This is a combination of Market risk and Operational risk. CIBT continues to develop three significant applications for CIB including a client hierarchy database, security master data base, and trade capture systems. These will have a significant impact on risk management of CIB.

Execution:
The Wachovia team Market Risk Coordinator should join with FRB IT examiners to monitor progress, understand scope and impact, and identify gaps. Questions or concerns about time table or impact should be documented for discussion with WB Market Risk Officers.

Contact:
Susan Certoma, CIB Technology Risk
Market Risk - Banking Book and Liquidity Risk

The 2008/9 Wachovia Supervisory Plan for the banking book (interest rate risk and liquidity) includes a mixture of examination activity and continuous monitoring. Examinations planned are targeted to assess ongoing infrastructure improvements (Interest Rate Risk, Counterparty Credit, and Investment Portfolio) or validate the current control environment (Liquidity, Treasury Corporate Governance). The Treasury Governance review will be critical as part of our assessment of risk management. A joint review of the investment portfolio is currently ongoing. The focus of this review includes pre-purchase analytics; risk reporting/controls, audit coverage, as well as the effectiveness of the new front end trading system (BlackRock) and the new risk management oversight progress.

The institution is being placed under a Memorandum of Understanding relating to its distressed condition, risk management practices, among other items. As a result, increased surveillance and management meetings will occur going forward. Heightened concern regarding liquidity has resulted in liquidity calls fluctuating between weekly to multi-times per day. This will continue as necessary.

An IRR exam is currently scheduled to begin in October 2008 with the scope focusing on the bank’s new EVE modeling processes. In addition, the inclusion of GoldenWest, specifically for interest rate risk, will be a focus as it remains a key contributor to consolidated interest rate risk and legacy modeling was rudimentary. We intend to execute the interest rate risk and liquidity examinations jointly with the OCC while participating on the investment portfolio review.

Our continuous monitoring efforts will concentrate on some specific issues in addition to the routine meeting schedule and MIS analysis. The most pressing ongoing IRR issues are inadequate project management for system implementation and delayed model validation. Other items that will be reviewed include securitization activity to assess deterioration in assets and the potential of any material impact due to FASB 140 guidance.

We will also compare the firm’s practices to those included in the draft BCBS Liquidity guidance.

Examinations

Liquidity Risk [Control Validation Review – Concurrent FRB/OCC Examination]

Background:
In our last review, liquidity management was rated satisfactory; however, recommendations were made to enhance management monitoring of liquidity on a global view (i.e. bank and non-bank funding needs). As a result of these findings management initiated an Enterprise Funding Project to increase the visibility, timeliness of information, and coordinate funding requirements under Treasury. To date, the implementation process has been slow.

Comprehensive Funding Governance – The issues noted as part of this MRA related to manual processes inherent as part of daily liquidity management and the effectiveness of those processes. While no instances were cited where this manual process broke down, it appeared to be insufficient for an institution of the size and complexity of Wachovia. Consequently, management has crafted the Enterprise Funding Initiative, a long-term project to enhance centralized funding governance. The EFI has not progressed as quickly as intended but has recently gained momentum. Considerable technology and business resources are required, but the program appears to have senior management support
Capital Planning remains an issue for Wachovia and the System. Our previous examination noted that capital planning needed to incorporate stress scenarios.

Objectives:
The 3rdQ 2009 target examination should assess:
- Current status of EFI. Although quarterly meetings are held, the examination will provide an opportunity to review the project management efforts, as well as look for weaknesses EFI is not addressing.
- Assessment of internal controls, including access controls, spreadsheet usage, and information flows.
- Analysis of MIS.
- Contingency funding stress test scenarios. All Wachovia-related entities should be captured as part of the quarterly scenario analysis by the time of examination.
- Funding strategies and communication. With Golden West, wholesale funding reliance has increased. Use of alternative funding sources (non-dollar debt, FHLB borrowings, etc) evidences a desire for diversified funding, but how are those needs communicated to the Liability and Liquidity Management group and further to senior management.
- Review capital planning processes.
- Determination of compliance with internal policy limits and external regulations.

Treasury Corporate Governance [Control Review – Concurrent FRB/OCC Examination]

Background:
A particular concern shared by this Reserve Bank and noted in recent examinations completed by the OCC is the lack of strong independent risk management over the Treasury and Balance Sheet Management group. The treasury functions takes additional risk for yield or tax benefit where appropriate. This risk is usually taken the form of structured transactions and/or other investments and many of these transactions have not been performed as planned. Going forward, it is incumbent on risk management to ensure that investments are made within an appropriate risk appetite and that potential downside risk is evaluated. The recent adjustments related to certain lease transactions provide an example of potential downside risk. Also, purchases into the opportunistic portfolio, originally housed in treasury, grew significantly to $5 billion. Often times an independent in-depth review of these investments was not completed prior to purchase and an example was the Duke Bond investment which had to be written down substantially.

Objectives:
The 2Q 2009 target examination should assess:
- Evaluate the effectiveness of overall policies and risk monitoring for key Treasury areas. Ensure policies and procedures have been updated to reflect changes caused by the market disruption.
- Assess level of Treasury management monitoring over key business lines. Review should focus on quality of MIS being provided over these areas including existence and use of policy limitations.
- Staffing adequacy.
- Senior management and board level reporting.
- Determine both legacy and current primary purpose of the Star group to determine if this LOB is being utilized as intended.
Interest Rate Risk (IRR) [Control Review – Concurrent FRB/OCC Examination]

Background:
The IRR profile of WB remains moderate and management of IRR is satisfactory though the group continues to face modeling challenge. Specifically, model risk is high mainly due to a lack of model validation and the fact that both EaR and EVE modeling processes were being revamped. EaR has been successfully revamped and implemented, but EVE remains outstanding and will be reviewed in the upcoming examination. Other outstanding issues focus mainly around modifying the current BancWare system in order to properly model the Golden West Option ARM products.

Objectives:
The 4Q 2008 target examination should assess:
- Development of Golden West behavioral assumptions
- EVE BancWare implementation and aggregation validation
- Analysis of MIS, backtesting, and Board Reporting
- Assessment of controls and documentation of work processes
- Stress test scenarios. Management continues to reassess scenarios, both routine and ad-hoc. Concern remains whether scenario presentation to ALCO and senior management could be improved
- Review data capture and reconciliation processes

Investment Portfolio [Control Validation Review – OCC Lead, FRB Active Participation]

Background:
Management has been slow to develop comprehensive investment portfolio risk analytics. A 4Q06 OCC-led examination produced several MRAs, including project management (a theme over the past few years at Wachovia), risk management, and model validation (another theme). Additionally, the implementation of BlackRock led to the MRAs regarding project management and model validation. Risk management issues around benchmarking were also noted as part of the examination and consequently, management is changing the benchmarking process. Subsequent to the 4Q06 examination, a significant management change was made with the prior portfolio manager leaving to head the Irish-chartered bank. The replacement appears to have a more trading mentality, which may or may not lead to increased risk taking. The challenging rate environment has already led to management identifying the need to increase credit risk to improve yields. Finally, Wachovia is undergoing a Balance Sheet Optimization initiative that was just in its infancy at the time of the prior examination.

Objectives:
The 3Q 2008 target examination should cover and render an assessment of:
- Follow-up on previous MRAs identified by the OCC. Assess BlackRock and new risk management oversight processes. Project management and model validation will also be key components of the examination
- The current strategy for the investment portfolio, including new and proposed products, and the risks involved
- Assessment of governance, policies & procedures, and controls
- Determination of compliance with internal policies and external regulations
- Assessment of MIS and board level reporting
- Evaluate system for legal classification of new investments
- Update on Basel status
Event/Issues Driven Continuous Monitoring - Liquidity

Parent Liquidity

Background
During the 2009 Liquidity and Capital Exam both the OCC and FRB focused on items such as policies/procedures, contingency funding plans, and staffing. However, this review did not cover items such as parent specific cash flow adequacy, liquidity, and non-bank contingent funding sources and uses. In order to ensure proper parent liquidity levels and activities we will need to perform an assessment. Non-bank funding will be reviewed during the 4th quarter as part of the overall non-bank subsidiary exam.

Objectives
During 4th quarter 2008 we will review parent liquidity as part of ongoing monitoring efforts. This will not be a formal examination; however, we will look to assess the following parent specific items:

- Cash flow statements
- Daylight overdraft process
- Update on BFED process
- Liquidity planning and monitoring
- Source and uses of funds assessment
- Staffing
- MIS and senior management reporting

Continuous Monitoring of Liquidity response to MOU

Background:
At the August 2008 board of directors meeting we plan to discuss our assessment of the corporation and present a Memorandum of Understanding, which will include provisions related to liquidity risk management. We will monitor progress with the items in the MOU on a quarterly basis to ensure compliance with provisions in the agreement.

Objective:
We will assess actions taken by management to refine liquidity policies and practices including development of a revised contingency funding plan as well as steps taken to evaluate staffing in the funds management group in response to our key man concerns.

Continuous Monitoring of Capital Planning response to MOU

Background:
At the August 2008 board of directors meeting we plan to discuss our assessment of the corporation and present a Memorandum of Understanding, which will include provisions related to capital planning and management. We will monitor progress with the items in the MOU on a quarterly basis to ensure compliance with provisions in the agreement.

Objective:
We will assess actions taken by management to refine capital planning processes and ensure that capital levels remain sufficient given earnings results and asset quality profile.
Operational Risk Management and Enterprise Technology

Operational risk remains a significant risk to the firm but improvement has been noted following validation by internal audit of several long-running IT risk remediation projects, combined with work ongoing toward resolving data center proximity risk over the next two years. While the information technology control issues have improved, work remains in the area of distributed systems access controls. Additionally, external computer security challenges remain as the company is facing new threats from Internet-based professional thieves (hackers) based mostly in Eastern Europe. The supervisory plan for the many operational risk issues for Wachovia will be mainly monitored through normal continuous supervision, supplemented with target inspections and focused ongoing monitoring activities. To date we are generally satisfied with management’s commitment and the work being done to improve the control and security environment; however, we will monitor the ongoing work to ensure project milestones are met and that implementation is being validated by internal audit.

Basel II associated work will include several supervisory activities aimed at furthering our understanding of both risk management practices and related corporate projects. With the expected start of parallel testing in fourth quarter 2009, we will focus on any identified gaps in risk management or governance practices. As with prior years, all work performed under this topic will be in conjunction with the OCC.

Enterprise Technology and Operational Risk Examinations

Internal Audit [Control Validation Exam – FRB led]

Background:
General Auditor (GA) David Julian assumed responsibility for the Audit function at the start of 2008, bringing a change of philosophy and desire to raise the stature of Audit both within the department and across the company. Audit’s execution continues to show improvement; however, IT Audit remains a concern as significant turnover at the Audit Manager/Director level may challenge progress with this group. Ongoing supervisory activities support the satisfactory rating, but a formal examination is warranted due to the change in GA and requirements of FRB Consolidated Supervision standards.

Objectives:
This is a control-validation examination. During this review we will assess the effectiveness of Internal Audit and the impacts of cultural or functional changes resulting from the new General Auditor. More specifically, examiners will assess: role and effectiveness of the Audit Committee; universe establishment and risk rating; coverage methodology; continuous monitoring efforts; Quality Assurance; issues tracking; and staffing levels and qualifications. The scope of the review will be influenced and adjusted by our ongoing supervisory activities and the results of management’s efforts to comply with the MOU. This exam will also serve to address any knowledge gaps such as in Treasury.

AMA Capital Modeling [Control Validation - OCC led]

Background:
The Firm has an established and well documented methodology for model development; however, the underlying methodology relying on a single unit of measure does not meet regulatory expectations. As a result of the issuance of the Final Rule management has committed to changing their capital model for operational risk to incorporate multiple units of measure. CORM has researched multiple units of measure and is developing a new model platform. Initial regulatory quantitative reviews of the model methodology noted a reasonable approach, but this was at the very early stages.
Objectives:
Wachovia’s AMA capital modeling program has been evaluated through targeted ongoing supervisory efforts prior to the issuance of the final rule. As the final rule has been published and management is developing a model based upon multiple units of measure, examiners will conduct a targeted review of the finalized and internally validated model. During this examination examiners will evaluate the model programs compliance with AMA standards for capital calculation, including assessment of the model, data inputs and the quality of supporting documentation. Additionally, we will assess the independent model validation process.

BEICF and Reporting [Control Validation - OCC led]

Background:
CORM has an established methodology for businesses to perform BEICF assessment. However, recent supervisory assessment identified that the methodology allows for variability in how the assessment is conducted, resulting in inconsistency in execution, resulting in a lack of clear documentation supporting assessments, aggregation and reporting. Management is currently reengineering the methodology to address the deficiencies.

Objectives:
As Wachovia moves to the start of the parallel exercise, CORM will be unveiling the enhanced BEICF process. Examiners will conduct a follow-up review of the BEICF process to evaluate management’s efforts to address the noted deficiencies. This exam will evaluate the effectiveness, consistency and documentation support for the BEICF process, and the associated risk aggregation and reporting.

Domestic and International Vendor Management / Governance Processes [Control Validation Exam-OCC Led]

Background:
Wachovia has struggled for the past three years to implement an effective enterprise “vendor management” solution and governance process, plus one that handles both domestic outsourcing to local service providers and off-shoring to international service providers. Wachovia’s past efforts to define and staff a vendor management function with proper controls and an effective governance methodology are beginning to show positive results.

Objectives:
The examination will review the institution’s domestic and international vendor management function to include the enterprise governance methodology that ensures the right activities are outsourced/off-shored with proper security and controls, and that line of business personnel remain involved in the vendor management process for the life of the outsourcing/off-shoring relationship. We expect Wachovia’s reliance on vendors to increase in the future. Thus, the implementation of improved governance controls over this function is essential to reducing technology and operational risk.

Data Center Proximity Exam [Discovery Exam-OCC Led]

Background:
Wachovia completed an out-of-region data center (Oxmoor) in 2006 in Birmingham, Alabama. Since then they have been managing a three-year project to ensure they can quickly transfer all processing of
their mission-critical systems to Oximoor on a moment's notice without unexpected loss of data or delays. In order to achieve this goal, they have built a new asynchronous communications-based, data backup and recovery process between their primary data center in Winston-Salem, North Carolina and the Oximoor Facility in Birmingham, Alabama. During second quarter 2009 they will conduct the first of two disaster recovery tests, with the second and final test planned for fourth quarter 2009. These will be the first time they will stress test the full DR system in an attempt to simulate reality.

**Objectives:**
We will assess their test plans in advance of each test, then observe and monitor each of the two tests during the simulated recovery, and finally conclude on the likelihood that they will be able to recover from a disaster to one center within a short period of time (i.e. estimated to not exceed 7-10 calendar days of being out of business).

**Distributed Systems Access Control Exam [Control Validation Exam-OCC Led]**

**Background:**
Wachovia's information security function is currently implementing new security measures for distributed systems access control – meaning production software that operates on computer servers located at remote locations. They have a vision of how they will manage software developer access to production on these servers; however, the technology is undergoing a proof of concept test before it is implemented enterprise wide. This project is the last remaining task from the long-running IT risk remediation projects that concluded during 2007. It has been a work-in-progress to find a solution for about a year after other proof of concept tests were not successful. The current project is expected to complete around mid-year 2009. The fundamental challenge is small computer servers do not have the same level of sophisticated logging and security software built into their operating system environment as mainframe and mid-range computers. Thus, management is forced to innovate and find alternative means to ensure the integrity of the systems that operate on these small computer platforms.

**Objectives:**
This is a control-validation exam of key network and server-based security processes that are meant to prevent/deter software developers from making unauthorized changes to production systems residing on remote computer servers. Controls in this environment are a combination of both preventive and detective measures. We will evaluate the effectiveness of the collective group of preventive and detective controls management has implemented to manage the integrity of the software operating on distributed servers.

**Technology Services – Operating Risk Self-Assessment Exam [Control Validation Exam-OCC Led]**

**Background:**
Wachovia's Chief Technology Officer has been a leader in his efforts to educate his management team on the proper way to conduct an operating risk, self-assessment review. The quarterly reviews parallel the assignment of management responsibilities for each type of technology or functional activity within Technology Services through a methodology known as CMM which stand for "Capability Maturity Model". Thus, each CMM leader is expected to conduct an operational risk, self-assessment review quarterly of all types of internal controls or technology exposures associated with their area of management responsibility. In addition, the CTO has implemented a monthly risk review process referred to a RPM or "Risk Portfolio Model" whereby all known internal control weaknesses, technology risks, emerging issues, or items discovered during the operational risk, self-assessment reviews are combined and ranked as to severity or urgency. Those reported by Internal Audit plus all
other threats rated as a high risk are scheduled for either management approval of the proposed solution or progress reporting on the risk remediation efforts.

**Objectives:**
This is a control-validation examination. During this review, we will assess the effectiveness and completeness of coverage of the quarterly operational risk self-assessment process, as well as the monthly Risk Portfolio Model (RPM) process.

**Event/Issue Driven Continuous Supervision**

**IT Residual Risk Remediation – Distributed Server Access Control (DSAC II) Project**

**Objective:**
We will meet quarterly with Steve Scott for an updated on the progress of his team toward completing the remaining remediation work on distributed server access controls. This part of the original scope of risk remediation work was not completed in 2006 and was redefined as a new IT risk remediation project during 2008. It is expected to continue through mid-year 2009. The objective will be to assess completion of the remaining technology platform access remediation work and the associated risks. The project scope addresses controls over software developer access to distributed servers (small computing platforms).

**Key Contacts:**
Steve Scott, IT Project Executive  
Beth Robinson, IT Risk Management  
Karen Holloman, IT Audit Managing Director

**Deliverables:**
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

**Data Center Proximity Risk**

**Objective:**
FRB will continue to assess progress toward risk mitigation and project completion. The overall objective will be to ensure that the proximity risk associated with the two data centers has been adequately addressed through the revised corporate strategy. We will meet quarterly with Dave Sakaluk and Jim Borendame who are co-chairing the team to develop and implement the strategy. We will monitor and assess Wachovia’s key milestones in updating the existing state of technology recovery readiness across the company. The focus will be on the progress the company is making toward its goal of unbundling and sharing production processing between its Silas data center in Winston-Salem, NC and its new Oxmoor facility in Birmingham, Alabama, which thereby reduces proximity risk.

**Key Contacts:**
Dave Sakaluk, Director CIO Project Office  
Jim Borendame, Director Data Center Operations

**Deliverables:**
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.
Corporate Information Security – Professional Hacking Threats from the “Russian Business Network”

Objective:
FRB will monitor the progress Steve Scott and his team make in defending the integrity of their Internet-facing portals, application systems, and internal business/customer data. We will meet quarterly with Steve Scott and his staff to monitor the company’s progress in creating defenses against the subtle attempts of the professional hacking organization known as the “Russian Business Network or RBN”, a highly skilled, well-funded, group of professional criminals based in Eastern European countries. Wachovia is leading an effort to coordinate with its LFI peers so that hacking attempts are quickly identified and defenses created to block and/or deal effectively with this exposure.

Contact:
Steve Scott, SVP and Chief Information Security Officer
Peter Makohon, VP, Information Security
Tom Bart, VP, Information Security

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

eCommerce – On-Line and Mobile Banking

Objective:
We will continue to meet with the IT e-commerce risk managers, Alicia Kontzen and Paula Herzberg and the project managers to assess progress in securing Wachovia’s Internet-facing portals, applications, and internal business systems. In addition, we will assess Wachovia’s progress in implementing a robust and secure mobile banking service offering. Specific focus in 2009 will be on the company’s success in continuing to upgrade security measures at all of Wachovia’s Internet-facing/on-line banking web portals, and to upgrade security for its expanding mobile banking service offerings.

Contacts:
Alicia Kontzen, Mobile Banking risk management
Paula Herzberg, e-Commerce risk management
Paul Hanssen, General Bank risk management

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

AG Edwards Mergers – Systems Integration

Objective:
We will hold routine discussions with technology management and integration project managers. Additionally, examiners will review integration project reporting to assess status and identify problem areas and potential impacts, as well as management’s remediation efforts.
We will evaluate and assess the plans and progress toward integrating the technology capabilities of the acquired businesses into the Wachovia environment.

Contacts:
Jim Ditmore, CTO,
Mark Hammersmith, Wachovia Securities CIO
Doug Steele, Wachovia Securities Project Manager (AG Edwards Acquisition)

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

Corporate Investment Banking Technology (CIBT) Upgrade

Objective:
We will continue to hold meetings with management to discuss the progress of CIBT’s three year plan to upgrade the technology infrastructure and improve the alignment of systems and business functions across the business unit. The primary objective will be to ensure the adequacy of the ongoing project work aimed at ensuring the IT infrastructure is sufficient and sustainable for expected line of business growth.

Contacts:
Susan Certoma, Corporate Investment Bank CIO

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

Outsourcing and Off-shoring Initiatives

Objective:
We will hold bi-monthly meetings with management and evaluate efforts to transition both Application Development and Maintenance (ADM) and Business Process Operations (BPO) to off-shore vendors in India, Mexico, the Philippines, and other yet to be named locations. Our objective will be to ensure that applications and business processes are selected and outsourced/off-shored in a prudent and effective manner.

Contacts:
Mike Monaghan, SVP, Business Process Operations (BPO) Project Office
Tom Barefoot, SVP, Information Technology Global Services (ITGS) Project Office

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.
Enterprise Technology Risk Management

Objective:
We will hold bi-monthly meetings with management and staff of the Enterprise Technology Risk Management (IT Risk Management) function. Our goal will be to monitor and assess their operational risk management work, and to discuss their quarterly assessment of technology risks across the institution.

Contacts:
Beth Robinson, SVP, and Manager, Enterprise Technology Risk Management
Technology Risk management Staff

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

Enterprise Payments Council

Objective:
We will hold quarterly meetings with the newly created Enterprise Payments Council whose responsibility includes all forms of customer payments processes (ACH transactions, checks, debit cards and credit cards, loyalty cards, merchant payments, etc.). Our goal will be to monitor and understand their payment processes and related payment systems risk exposures across the institution.

Contacts:
Tom Bohn, SVP, Card Processing Executive
Payment Systems Managers

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

Basel II – Risk Data Strategy (RDS) Database

Objective:
We will meet bi-monthly with Jackie Burton, Project Manager, to discuss progress and assess efforts to implement an enterprise RDS database that will support Basel II data processing and reporting requirements. Our objective will be to monitor the completion of key project milestones while assessing whether the data is obtained from appropriate source systems/business processes, and processed in a secure and reliable manner.

Contacts:
Jackie Burton, RDS Project Manager

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.
Internal Audit

Objective:
The assessment of Internal Audit is an ongoing activity that incorporates regular meetings with Audit senior leadership and sample reviews of audit reports and associated work papers. These activities will supplement the target review of Audit. Our objective in conducting these activities is to aide in forming opinions on the competency of staff, quality of work performed, and our ongoing ability to leverage work performed by Audit. The new General Auditor has been an upgrade, and he continues to implement structural and philosophical changes aimed at raising the stature of Audit, both within the department and in the businesses. We will continue to monitor and evaluate enhancements resulting from this change in leadership. Overall, improvement in the Audit function has been noted; however, concerns remain with Technology Audit due to reporting consistency and significant turnover at the Audit Manager/Director level and as a result this will continue to be an area of focus to evaluate the sustainability of improvement.

Contacts:
David Julian, General Auditor
Direct Reports

Deliverable:
Provide support for the 2009 target exam of Audit, and more specifically the scope of the exam.
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.

Corporate Operational Risk Management

Objectives:
Operational risk management remains a work in progress at WAC, and as such we will conduct monthly meetings with CORM senior leadership, and associated business risk managers. The objective of the ongoing supervisory efforts will be to understand the continually evolving operational risk management methodology, both from a corporate and business perspective, and resulting compliance with the Basel final rule. Additionally, we will continue to evaluate the degree of integration between corporate and business risk functions, and the degree to which corporate standards have become embedded into business as usual risk management practices at the business or functional support level. Recent supervisory activity noted the need for improvement in the BEICF process, and collateral effects to reporting. We will evaluate progress in our ongoing efforts to support the BEICF/Reporting target review. Finally, we will review results of CORM’s monitoring program for compliance with corporate standards.

Contacts:
Pamela Rooney, CORM Executive
CORM Direct Reports
LOB Operational Risk Managers

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.
Governance and Risk Management Practices

Objective:
For MOU purposes, we will meet periodically, as defined in the MOU, and more frequently as necessary, to gain information regarding management’s efforts to comply with the elements of the MOU. Additionally, we will meet periodically with the executive sponsor of the RRCGI to gain knowledge of risk management infrastructure changes. Impacts or changes from the MOU or RRCGI will also be factored into regular discussions with risk and business management. The focus of the efforts will be to gain an understanding of governance and risk management weaknesses which have been identified as a result of internal evaluations, as well as those included in the independent consultant’s report as required by the MOU. Next, we review management’s remediation plans and the impacts to current risk management infrastructure. Finally, examiners will determine the reasonableness of any changes, effectiveness of resulting infrastructure and compliance with the MOU.

Contacts:
MOU Executive Sponsor
Pamela Rooney, CORM Executive
David Julian, General Auditor
Mark Sullivan, Corporate Financial Control

Deliverables:
Meeting minutes posted in the Supervisory Database, updates communicated through the monthly CPC reports, and risk conclusions incorporated into the ratings in the year-end assessment, RFI, and RAP.
Legal and Compliance Risk

Our legal and compliance supervisory plan for 4th quarter 2008/2009 will continue to leverage off of our continuous supervision program, exams by functional regulators (OCC, OTS, SEC), and our own exam work. As discussed in the 2008 legal and compliance RAP, Wachovia has had several high profile investigations (casas de cambio, municipal bid rigging, and PPC) that have negatively impacted their reputation and shown potential weaknesses in their risk management program. In addition, Deborah Davis, the new Chief Compliance Officer, has reorganized her department including bringing in a new BSA/AML leader. Although we believe the reorganization will lead to enhancements in their program, we are concerned with execution risk. As a result, we are planning on conducting an examination of the compliance risk management function and will continue to work closely with the OCC and the OTS related to BSA/AML and consumer compliance including fair lending and CRA.

Targeted Examinations

Corporate Compliance Risk Management [Control Validation Review FRB Led]

Background:
Given the investigations and the compliance department reorganization described above and in the RAP we will be conducting a review to ensure that enterprise compliance risk is being adequately managed. This review will possibly be jointly conducted with the resident OCC team.

Objectives:
- Are the governance, structure, and oversight appropriate given the risk profile of the corporation?
- Review the new product approval process, compliance risk assessments, and monitoring practices
- Is board and senior management reporting (MIS) sufficient and effective?

Regulation W [Control Validation Review FRB Led] – carryover 2007 plan

Background:
This review will assess the adequacy of processes in place to ensure compliance with Reg. W. Our 2005 examination work in this area resulted in two MRAs (daily aggregation of affiliate activity and overdraft fees) that were scheduled to be corrected by June 2007. Additionally, 2005 exam had several recommendations regarding security sales to affiliates, training, and internal audit coverage. During this review we will verify that appropriate steps have been taken to address these issues.

Objectives:
- Is corporate governance appropriate?
- Is regulatory reporting (Y-8) accurate?
- Did the corporation adequately correct the above mentioned MRAs noted in the 2005 exam? What was done in response to the recommendations?
- Is internal audit’s coverage adequate and appropriate?
- Have there been any changes to the policies and procedures since 2005?
- Review selected inter-company transactions for compliance
Reg. R/GLBA [Control Validation, OCC Led FRB Active Participation]

Background:
Reg. R was adopted in October 2007 by both the Board of Governors and the SEC. The regulation limits the amount of securities activities that can be conducted under various trust, fiduciary, and custody activities without registering with the SEC as a broker/dealer. The effective date of the regulation begins on January 1, 2011; however, there is a two year look-back provision which effectively means that organizations must be supporting compliance to the reg. beginning on January 1, 2009.

Objectives:
Compliance with Reg. R will reside within Wachovia Bank N.A. The bank will need to establish policies and procedures to identify and quantify the exemptions needed in order to avoid having these security activities being conducted within an SEC broker/dealer. Given that this is a new rule the OCC will want to ensure that the bank has completed the following:
- Adopted comprehensive policies and procedures;
- Installed systems to track fees and revenue associated with securities activities as required by the reg.;
- That the bank will comply with the advertising restrictions; and
- The bank has the board of directors of the approach being taken to comply with the reg.

Edge Act and Agreement Corporations

Annual Edge Act /Agreement Corporations Examination [Mandated Examination]

Background:
Regulation K (§211.13.b) mandates an annual examination of Edge and Agreement corporations and their subsidiaries. Wachovia controls one Edge Act Corp. and four Agreement Corps. The significant entities to be examined are as follows:

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Type</th>
<th>RSSD</th>
<th>Assets as of 12/31/2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wachovia International Banking Corp. (WIBC)</td>
<td>Edge</td>
<td>24837</td>
<td>$3.2 billion</td>
</tr>
<tr>
<td>Cardinal International Leasing LLC (CILL)</td>
<td>Agreement</td>
<td>3385968</td>
<td>$6.0 billion</td>
</tr>
</tbody>
</table>

WIBC has active subsidiaries including Wachovia Securities International Ltd, UK assets of 1.9 billion as of 12/31/2007 and Wachovia Capital Finance Corporation (Canada) with assets of 1.2 billion as of 12/31/2007. WSLIL houses Wachovia’s European Broker/Dealer activities. CILL contains the legacy First Union international leasing operations including a leveraged lease portfolio.

Of the remaining three, smaller Agreement Corporations, Monument Street International Funding I & II jointly own a London-based advisory firm, the activities of which will be reviewed by the annual examinations, and we will confirm that South Trust International has been dissolved and no new activity is being booked.

Objectives:
The objective of the annual examinations will be to assess changes in the condition, operation and governance of the Edge and Agreement corporations and their subsidiaries since the previous review.
Examiners will determine, in accordance with SR 90-21 guidelines, an appropriate CAMEO rating for each institution. Additionally, this examination will be done by desk review as many of the international activities have decreased due to the market disruption.

**Event/Issue Driven Continuous Supervision**

*AG Edwards Acquisition*

**Objective:**
Wachovia Securities, LLC acquired AG Edwards creating the 2nd largest retail broker/dealer. This integration poses challenges as they are moving the headquarters for Wachovia Securities LLC from Richmond, VA to St. Louis, Missouri. Key challenges in addition to the change of location will be in combining the systems of the two firms and retaining key employees including high producing brokers and back office staff. We will monitor this acquisition through meetings with senior management and will post all meeting minutes and MIS to the supervisory database. This integration is scheduled to be completed by the 1st quarter 2009.

**Key Contacts:**
David Carroll, Head of CMG
Vic Albrecht, Chief Compliance Officer CMG/WMG
Doug Steele, Integration Leader

**Deliverables:**
Postings of meetings and MIS to the Wachovia 2008/2009 supervisory database

*Casas de Cambio and Municipal Bid Rigging Investigations*

**Objective:**
We are continuing to work with the DOJ and OCC on both of the above investigations. Given the potential settlements with the DOJ and likely written agreements we are segmenting time in our supervisory plan to work on these. It is expected that the casas de cambio investigation will not be resolved until 2009 and the municipal bid rigging investigation will be settled in the 3rd/4th quarter 2008.

**Key Contacts:**
Doug Edwards, Head of Litigation
Deborah Davis, Chief Compliance Officer
Dan Soto, BSA/AML Officer

**Deliverables:**
TBD – depending on outcome

*Wachovia Global Securities Lending*

**Objective:**
Wachovia Global Securities Lending is an SEC registered investment advisor focused on providing securities lending advice to institutional investors including public funds. This entity is a holding company subsidiary with approximately $62 billion under management. The FRB has a knowledge gap
with this business line and would like to gain a better understanding of the compliance and risk management infrastructure and the business objectives of this unit. In addition, we will want to verify how the risk/issues of the entity are monitored and controlled by Wachovia Corp.

**Key Contacts:**
Dennis Ferro, Head of Evergreen Mutual Funds
Bill Dawson, Risk Management
John Dashner, Internal Audit

**Deliverables:**
We will conduct focused meetings with the appropriate staff and review MIS produced both for senior management of the business line and also for various corporate control functions e.g. compliance, and risk management. All meeting minutes and MIS will be posted to the Wachovia supervisory database as well as a memo summarizing our conclusions and any next steps.

**European Credit Management (ECM)**

**Objective:**
ECM is a non-bank asset management firm headquartered in London. It manages 19 portfolios of European fixed-income securities comprised of ABS, corporate bonds (investment grade and high yield), and leveraged loans. In March of 2008, the Parent provided a repo line in the amount of $140 million and an unsecured line of credit for $200 million in order to support them. ECM management worked to de-leverage certain funds in order to cut down on the volatility particularly in their Asset Backed Europe fund. Additionally, when Wachovia purchased the majority ownership interest (70%) in ECM, they employed consultants to come in and review the operational risk framework which has resulted in a remediation plan in order to bring them up to corporate standards. Our objective will be to hold ongoing focused discussions with senior management and risk management to closely monitor their progress in the aforementioned issues.

**Key Contacts:**
David Carroll, Head of CMG
Bill Dawson, CMG/WMG Risk Management
Chuck Richard, International Compliance Managing Director

**Deliverables:**
Postings of meetings and MIS to the Wachovia 2009 supervisory database
IV. Other Categories

Basel II Preparedness

The primary supervisory focus of work in 2009 will be pre-parallel preparation and parallel run performance of the company. The Basel II project has suffered several significant setbacks since inception. During the second quarter of 2008 the program was reorganized under a different management team. We will continue to conduct our monthly meetings with the Basel II Program Project Management Office and the Audit Project Office. At these meetings, gap remediation, key issues, significant changes, and actions plans are discussed as well as progress around the development and execution of the work streams and projects. Additional meetings may be added on as needed basis to review and discuss specific oversight mechanisms and documents.

In 2009 we will focus our supervisory efforts on those aspects of Basel II where there has been an identified compliance gap based on the data provided in the Gap Analysis, Self Assessment, and Implementation Plans. Successful closure of the gaps and completion of all associated work streams under the Basel II Program prior to the company’s entry in the parallel run will be key.

The work discussed in this section will further the team’s knowledge of the methodologies utilized by the company as well as provide assessments of the company’s compliance with the various sections of the final rule. It will also address the issues described in the Key Issues section of this plan. This work reflects a strategy whereby the Wachovia team, in conjunction with the OCC, work to close knowledge gaps and establish a formal program for assessing validation either with specific testing or by reviewing the work of internal audit. Wachovia continues with its plan to conduct a parallel run beginning October 1, 2009. Our Basel II supervisory strategy is based on an integrated approach. The team risk coordinators, in conjunction with the Basel II coordinator, have developed an approach insuring that all necessary elements toward evaluating Basel II compliance are met. Risk and Policy subject matter experts and the Basel II Qualification Teams will assist with this effort. The Basel II supervisory activities will, therefore, be reported within the corresponding risk sections of this plan.

The areas which will receive increase emphasis during this supervisory plan year are:

1. IRB: The wholesale IRB work streams have historically proceeded in an overall satisfactory manner. However, the company has had significant issues with the retail IRB and RDS projects. These two areas have been the primary drivers for the overall Basel II program being internally coded “RED” or “At risk of missing interim or final milestones” for 19 out of the last 20 months.

2. AMA: This area has been heavily scrutinized for the past five years. This aspect of the company’s Basel II compliance program has outpaced all other workstreams and remains in a very good position. However, only upon the release of the final rule did the company acquiesce to the long-standing regulatory outcry for a capital calculation model which contained multiple units of measure. Consequently, the company is now in the process of reworking their capital modeling methodology to account for this change. Our focus in 2009 will be to assure that all elements of such a model with the multiple units of measure are properly implemented. Other focal points will be the integration of business environment internal control factors corporate wide and reporting.
3. **Market Risk Amendment (MRA):** Although the supervisory team has conducted a Market Risk Management examination during each of the past several years, a knowledge gap exists with regard to the new MRA rule. We will assess compliance with the qualitative and quantitative requirements of the Federal Reserve’s existing market risk amendment rule. Additionally, we will determine progress and provide feedback with respect to meeting requirements of the Revised Market Risk Amendment, when in effect. This objective will be met by performing the analysis during the already scheduled MRM examination rather than scheduling a separate examination.

4. **Securitizations:** Although the degree of activity and volume of securitized products has declined this will be an area of focus going forward. We will conduct routine continuous monitoring of this area to document processes, products, activities and methodologies. The supervisory efforts on this area will be conducted in conjunction with the efforts in the market risk area.

5. **Equities:** Wachovia (WB) has elected to use the simple risk weight approach (SRWA) to calculate risk-weighted assets for its equity exposures. The Corporation is proceeding with the application of this approach and continues to struggle somewhat with the best means to aggregate its equity exposures. WB has a decentralized approach to equity investing, which has led to regulatory reporting errors and poor management reporting. We plan to monitor WB’s efforts to comply with Basel II for equity exposures through a combination of ongoing monitoring and exam work.

6. **Pillar II:** Ongoing monitoring will serve as the primary supervisory approach toward assuring that the company is in compliance with the specific aspects of this portion of the final rule. Specifically, our focus will be to evaluate the company’s ability to meet the Pillar 2 requirement in the U.S. Basel II final rule, which requires that an institution have a satisfactory internal capital adequacy assessment process (ICAAP). The company was part of the Economic Capital horizontal examination which identified several issues which need to be addressed going forward. We will hold meetings with the company to note the progress on these issues as well as meet with Basel work teams to assess compliance with related ICAAP directives.

**Basel Work Listed Previously in the Supervisory Plan:**

- AMA Capital Modeling
- BEICF and Reporting
- Basel Standards IRB Wholesale Review
- Basel Standards IRB Mortgage – Segmentation & Parameter Estimation
- IRB Home Equity – Segmentation & Parameter Estimation
- Follow-up on IRB Issues Raised in previous Retail Model Exams

**Basel II Targeted Exams (non-Credit and OpR)**

*Basel II-Gap Analysis and Implementation* [Discovery Examination-joint Fed-led/OCC active participation]
**Background/Rationale:**
Wachovia plans to enter the parallel run on October 1, 2009. The company will have their plans approved by the Board of Directors at an August, 2008 meeting. We will review these completed plans jointly with the OCC in September 2008 with a planned follow-up exam on the results of this review in the second quarter of 2009. We will be reviewing their efforts to complete their planning and successfully enter this phase of Basel II compliance.

**Objectives:**
- Determine the accuracy of the Basel II Gap Analysis
- Determine the adequacy and reasonableness of the Basel II Implementation Plan
  - Evaluate the plan in terms of scope, timing, resources, compliance with Basel II requirements, and validation
- Review compliance with AMA elements.
- Review Ensure that all IRB, both retail and wholesale program elements of the company’s program represent all required factors seen in the rule.
- Ensure that the company has adequately addressed compliance issues associated with securitization activity.
- Ensure that the company is in compliance with Pillar Two rule directives.
- Ensure that program elements associated with Equity positions are aggregated within the corporation and appropriately managed within the Basel II compliance program.
- Ensure that the company is in compliance with all MRA guidelines.

**Event/Issue Driven Basel II Continuous Monitoring**

**Basel II Market Risk Amendment: (Same and part of the Market Risk Management exam previously listed)**

**Background:**
The supervisory team continues to conduct targeted Market Risk Management examinations during the supervisory cycles. The work centers on assessing the appropriateness of trading VAR models and stress testing. Consequently, our level of knowledge with regard to model methodology is considerable. However, a knowledge gap exists with regard to the new MRA rule. We will again conduct an examination of Market Risk Management in 2009 to further our knowledge of the elements related to the MRA.

**Objectives:**
We will assess compliance with the qualitative and quantitative requirements of the Federal Reserve’s existing market risk amendment rule (Reg Y Appendix E to part 225). Additionally, determine progress and provide feedback with respect to meeting requirements of the Revised Market Risk Amendment, which is expected to go into effect January 1 2009. Under the current rule this will include assessing the appropriateness of trading VAR models as well as Stress testing. The level of sophistication and accuracy of an organization’s internal VAR model must be commensurate with the nature and size of its covered positions. The capture of risk factors in VAR must meet both explicit requirements and principles laid out in the rule. Trading Stress tests should be appropriate reflect the risk of severe but plausible market shocks specifically with respect to the portfolios, risk factors, and strategies undertaken by the firm.
Basel II Securitization:

**Background:**
Securitization exists in two areas of Wachovia Corporation: Within Wachovia Bank N.A. assets are securitized with assistance from the Corporate & Investment Bank for brokerage and valuation. The second form of securitization occurs in CIB. Wachovia provides funding, structuring and execution through its capital markets for securitization of commercial, residential mortgage and retail assets. Wachovia Corporation has a significant presence in the area of securitization. Through 12/31/07, total Wachovia securitizations to date were $123,579MM, excluding mortgages and loans sold to GSE. This was an increase of $32.9B, or 36.3% from 12/31/06.

Wachovia also holds credit exposure from the issuance of mortgage and asset-backed securities. Retained credit exposures are made up of retained interest only strips, and the larger, retained credit enhancements. Total retained credit exposures (RCEx) were as high as $6.6B at 9/30/07 but ended the year at $5.3B. This was an increase of 60% from the $3.3B level seen at 12/31/06.

Retained credit enhancements (RCEn) held by Wachovia totaled $4.7B as of 12/31/07 (a 74.63% rise from the corresponding 2006 timeframe) and were the primary contributor to the increase of RCEx. RCEn overall peaked in the third quarter at $6.1B driven by commercial real estate loans retail credit enhancements of $3.6B. However, this rise was off-set by retained interest-only strips which declined in 2007 by 11.13% to $527MM from $593 at year-end 2006.

Wachovia Corporate and Investment Bank (CIB) has a broker dealer which uses a traditional securitization model. CIB provides funding, structuring and execution of securitizations through its capital markets unit. The securitization process is utilized by customers as well as Wachovia Treasury in its balance sheet management activities. Securitization occurs in the fixed income division in four business lines: Real Estate Capital Markets (RECM), Structured Credit Products (SCP), Residential Mortgage and Consumer (RMC) and Structured Asset Finance (SAF).

CIB also participates in third-party securitizations where it arranges, structures and syndicates a securitization on behalf of a client. Real Estate Capital Markets is the largest securitization business line for Wachovia. Wachovia takes on a great deal of market as well as credit risk in the warehousing of loans until securitization.

As can be seen, the company is involved in many forms of securitization activities. Our focus will be to assess Wachovia’s compliance with the securitization-related requirements of the final rule considering these many activities. For example, this will include: whether the institution has an effective process to identify securitization exposures across the institution, which follows the definitions as outlined in the rule, if the institution’s process to determine which approach to apply to each exposure correctly follows the hierarchy, and whether or not the company has data management and maintenance systems that support all aspects of its IAA.

**Objectives:**
- Determine the level and direction of credit and market risk from retained credit exposure
- Ascertain and monitor the market risk exposure in CIB from securitization activity
- Evaluate Wachovia’s compliance with Basel II final rule requirements around securitization activities.
Equity Exposures

Ongoing Monitoring Activity

Scope and Objectives:
Monitor the company’s progress against its implementation plan.

- Complete the Basel Qualification Summary (BQS) to evaluate whether WB’s Plan satisfies the equity exposure-related requirements in the Final Rule
- Complete the Equity BQS Work Program to evaluate whether WB successfully implemented its plans to meet the equity exposure-related requirements in the Final Rule
- Discuss progress with FRS Trading Qualification Team to identify best practices and to ensure the all qualification issues are being identified and addressed.
- Ensure that PMO documentation is update and posted to the Sharepoint site in a timely manner.
Financial Condition

Targeted Exams

Nonbank Legal Entity Governance and Funding [Control Validation Review – FRB Lead] – carryover 2007/8 plan

Background:

Wachovia utilizes a number of substantial non-bank entities to conduct brokerage, investment banking and insurance operations, and for funding and investment activities. With the exception of the parent corporation, Wachovia’s largest and most active non-bank entities are the retail and capital markets registered broker/dealers, which are functionally regulated by the SEC. Other principal non-bank entities are used as booking vehicles within the CIB business line. We need to gain a better understanding of the governance processes around the various nonbank legal entities, the purpose of each entity, and what type of assets are being placed in these entities. Further we need determine how these entities are being funded. Given the market turmoil, we are particularly interested in the level and type of assets going into these entities and if levels have increased. Any increase in asset levels would need to be accompanied by an increased funding need. We will assess the appropriateness and any additional funding needs planned. A financial analysis will be conducted on the parent company and each non-bank subsidiary of the FHC that submits regulatory reports to the Reserve Bank. A recent Internal Audit has rated the area Satisfactory but six matters requiring attention issues were identified. We will determine the status of each issue. If we can leverage off of Audit’s work, we will do so.

Regulation W processes will be determined and, as appropriate we will forward any potential issues to the examiner-in-charge of the Regulation W examination which will be completed in 2009. If time is limited, we defer some testing to this other examination.

SR 04-18 requires an assessment of the potential impact of the parent company and non-depository subsidiaries on the subsidiary depository institutions of the FHC. Additionally, SR 93-19 requires the completion of a risk assessment of each active, non-bank subsidiary. This examination, which is a hold-over from the 2008 Supervisory Plan, will support the determination of the appropriate Impact component within the RFI/C (D) rating system for Wachovia Corporation. This is a carryover from the 2007/8 plan.

Objectives:

• Determine purpose of the various legal entities. Determine where most nonbankable assets are placed. Assess management’s strategy/use of existing or new legal entities.
• Determine process to create and close legal entities.
• Evaluate governance and reporting from a holistic view.
• Assess policies and procedures.
• Determine who maintains ownership of assets when transferred into nonblank entities from WBNA, relating to quality, reporting, and relationship.
• Assess type of funding of the various entities. Evaluate appropriateness of changes in funding methods or increases in additional funding needs and assess controls around the process. Assess the investment portfolio held at the Parent Corporation and nonbank subsidiaries.
• Review Internal Audit’s Legal Entities audit. Determine status of issues and assess adequacy of audit’s scope and quality of work completed. As appropriate, we will rely on Audit’s work to reduce our testing.
• Determine the larger and more active entities. These will be sampled for governance and controls. For those sampled:
• Determine type of assets being placed in entities and business units utilizing entities.
• Evaluate oversight and controls over assets being placed in entities. Review policies and procedures.
• Assess quality of MIS reporting for internal use and regulatory reporting.
• Assess compliance controls (including AML).
• As appropriate, do transaction testing.
• Review process for identifying and reporting Reg. W related transactions. As transaction testing is completed, review 23A & B transactions for appropriateness. A FRB exam of Reg. W is scheduled for 2009, issues or questionable practices will be brought forward for their in-depth review or if time is limited, some work will be deferred till that review.

Event/Issue Driven Continuous Monitoring:

The supervisory plan will require a quarterly update of the component rating for the financial condition rating. Also, the financial analyst will monitor the company’s performance against strategic plans and budgets submitted with the MOU. The result of the review will be reflected in monthly reports as needed. Any changes in ratings will be communicated to the company as need in quarter correspondences related to the MOU.
V. Tables

a. Examination Plan Table

Master Wachovia
2009 Exam Table (8-1)
## b. Knowledge Gap Table

<table>
<thead>
<tr>
<th>Knowledge Gap Identified in RAP</th>
<th>Addressed through:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FRS Exam</td>
</tr>
<tr>
<td><strong>Legal/Compliance:</strong></td>
<td></td>
</tr>
<tr>
<td>Regulation R compliance program given R is set to become effective October 1st, 2009</td>
<td></td>
</tr>
<tr>
<td><strong>Operations:</strong></td>
<td></td>
</tr>
<tr>
<td>Technology management's efforts to address regulatory MRAE focused on Distributed Systems Access Controls (DSAC)</td>
<td></td>
</tr>
<tr>
<td>Corporate Technology Risk Management monitoring and risk assess program</td>
<td></td>
</tr>
<tr>
<td>Impacts from leadership changes in 4 of 6 IT audit manager/director positions recently</td>
<td></td>
</tr>
<tr>
<td>Operational stability and impacts of the strategic expansion of international business capabilities, including the use of third-party service providers</td>
<td></td>
</tr>
<tr>
<td>Quality of controls and management oversight of payment systems risks</td>
<td></td>
</tr>
<tr>
<td>Impacts of the overlay of Wachovia's corporate culture and governance practices A.G. Edwards</td>
<td></td>
</tr>
<tr>
<td>Basel II Gap Analysis, Implementation Plan and start of Parallel run</td>
<td>X</td>
</tr>
<tr>
<td>AMA Capital Modeling migration to a multiple unit of measure model</td>
<td>X</td>
</tr>
<tr>
<td><strong>Credit:</strong></td>
<td></td>
</tr>
<tr>
<td>Adequacy of ALM</td>
<td></td>
</tr>
<tr>
<td><strong>Market &amp; Liquidity:</strong></td>
<td></td>
</tr>
<tr>
<td>Trade Capture Process (work with IT examiners on project updates)</td>
<td></td>
</tr>
</tbody>
</table>

**Internal Audits - Treasury Division:** We need to more fully assess quality Treasury audits. This includes an assessment of whether internal audit is identifying and communicating systemic issues to management. We will review Treasury related audits as they are completed, attend bi-monthly meetings with Treasury Auditors, sample workpapers as necessary, and work with OCC on a risk assessment they will be completing. Efforts will be coordinated with Todd Ryan. | X | | | |

**Complex & New Products Processes in Treasury:** We need to more fully review complex and new product processes occurring through Treasury. Given the current turmoil and liquidity focus this year, we have not been able to maintain good oversight. We will review new products and complex committee packages, sample new initiative approach, and meet quarterly with gatekeepers of the process. We will also review work completed by the OCC in 2007/2008 | | | X | |

**Interest Rate Risk - Modeling of Golden West portfolios and ability to measure mortgage risk:** We need to better understand modeling of Golden West portfolios and ability to measure mortgage risk (modeling optionality of this portfolio, convexity, prepayment, etc.). This will be accomplished via participation in OCC examination ongoing monthly meetings with IRR management, and review of IRR model output | | | | X |

**Basel II:**

**Effectiveness and overall adequacy of the company’s Basel II Implementation Plan:** | X | | |

**Financial Condition:**

**Edge Act & Agreement Corps:**

WSIL Japan is a newly formed subsidiary of Edge Corp WILC. We believe this will serve as their Asian brokerdealer and that it will mirror WSIL London but we need to confirm with management and ensure the appropriate controls are in place | X |

**Other Miscellaneous:**

Board and Management efforts to comply with the Memorandum of Understanding | X |
VI. Appendices

a. Appendix: OCC Exam Plan
b. Appendix: MIS

Credit

Analysis of Internal MIS, Regulatory Reports, and Public Information

The resources in the adjacent chart are those regularly referenced in the continuous monitoring process. The chart does not include one-off resources such as internal presentations, special request information, public press (including internet sources) or specialized publications. Due to the volatile market in 2007, special request information has been used frequently to augment regular MIS received.

Valuable information, such as the loan policy manual, is found on Wachovia’s intranet to which we have access. LOB and product reports on Wachovia’s intranet allow us to obtain more detailed and segmented information and are referenced as needed. Of the MIS listed in the chart, the CRC, CRPC, Monthly Portfolio Performance Overview and Risk Return packages are the ones that are most useful in tracking credit risk and are posted on the database along with their key takeaways.

<table>
<thead>
<tr>
<th>Internal Report</th>
<th>Key Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risk Committee Package (2 times each quarter)</td>
<td>Review of risk versus performance; detailed information about asset quality, portfolio policies, market update, Credit Risk Review update as well as LOB summaries</td>
</tr>
<tr>
<td>Credit Risk Portfolio Committee Package (Monthly)</td>
<td>Portfolio observations, market trends, loan exposure and outstandings, Commercial and consumer portfolios by business unit, NPLs, charge-offs and charge-off and loss</td>
</tr>
<tr>
<td>Country Exposure Report (Quarterly)</td>
<td>Exposure by country (excluding FX and Derivative Products)</td>
</tr>
<tr>
<td>Public Portfolio Management Report (Monthly)</td>
<td>Notional balances of the various books used for credit risk mitigation (Mandated &amp; Discretionary CDS, MTM, and AFS Loans &amp; Bonds); as well as DV01, cost of carry, and years to maturity of the credit risk mitigation portfolio.</td>
</tr>
<tr>
<td>World Savings Surveillance Report (Monthly)</td>
<td>GW Portfolio report generated by the STAR Group in Charlotte, summarizing portfolio characteristics, performance, trends</td>
</tr>
<tr>
<td>Package from the Corporate Allowance for Credit Losses Committee (Quarterly)</td>
<td>Details re ALLL including Reserve Adequacy Test Changes, ALL Activity, Current Quarter Reserve Adequacy Test, SFAS 114 Summary, GDW Portfolio Allowance, Allocation to entities and Committee Approval, Reserve Adequacy Test Summary by entities</td>
</tr>
<tr>
<td>Regulator Deck for Monthly Basel Status Report Meeting (Monthly)</td>
<td>Progress on Basel Program projects including key risks</td>
</tr>
<tr>
<td>Monthly Portfolio Performance Overview (Monthly)</td>
<td>For mortgage portfolio, overview of total portfolio as well as by segment, delinquency trends, other performance indicators</td>
</tr>
<tr>
<td>Mini-Dart Mortgage Report (Monthly)</td>
<td>Mortgage report that is customized by user</td>
</tr>
<tr>
<td>Credit Risk Review Reports (Quarterly)</td>
<td>Reports issued during the quarter on various units</td>
</tr>
<tr>
<td>Golden West Deferred Interest Committee Package (Monthly)</td>
<td>Package looking at the GW portfolio under certain scenarios (e.g., assuming all make minimum pay, how many will have recast due to balance constraints, etc)</td>
</tr>
<tr>
<td>Consumer Asset Quality Monthly Report (Monthly)</td>
<td>Looks at the consumer portfolio as a whole as well as by product, giving production and performance data</td>
</tr>
<tr>
<td>Elevated Risk Report (weekly)</td>
<td>Leverage Lending Portfolio-Mandated and Committed Deals, Summary and Detail for all transactions</td>
</tr>
<tr>
<td>Risk Return Package-Credit portfolio (Monthly)</td>
<td>Provides an analysis of the CIB portfolio in more detail than is provided in the CRC or CRPC packages</td>
</tr>
<tr>
<td>Criticized Asset Report (Quarterly)</td>
<td>Detailed reporting of criticized assets</td>
</tr>
<tr>
<td>LCD Weekly Wrap (Weekly)</td>
<td>Standard &amp; Poor’s Leverage Commentary and Data distributed internally by Wachovia’s Portfolio Management Group</td>
</tr>
<tr>
<td>OCC Quarterly RAS (Quarterly)</td>
<td>OCC’s evaluation of Wachovia’s credit risk</td>
</tr>
</tbody>
</table>
Market – Trading Book

The following resources represent sources of information that are regularly referenced in the continuous monitoring process. They do not include one-off resources such as internal presentations, special request information, public press, specialized publications, and other non-repetitive sourcing.

Risk information is primarily tracked utilizing the weekly VaR reports and summaries. Performance is tracked utilizing the Fixed Income and Equity Division Packages, along with the CIB Performance Package. The Risk-Return Committee Package provides higher-level information structured for senior management, allowing the FRB supervisory team insight into key issues, long-term strategies, and risk trends.

Internal audit reports are reviewed as available and discussed with internal audit managers during bi-monthly meetings. These reports and meetings are a key source of information regarding the state of controls within CIB capital markets activities.

The CIB Risk and Return report and Market Risk Summary packages are the two primary data sources that assist us in managing the Trading Book risk of the company. These two will be posted on the supervisory database with key takeaways.

<table>
<thead>
<tr>
<th>Internal Report</th>
<th>Key Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIB Results (Quarterly)</td>
<td>Narrative of key performance highlights for CIB and its business segments; detailed segment analysis covering the balance sheet, off-balance sheet, and income statement; results versus projections</td>
</tr>
<tr>
<td>VaR Backtesting Reports (Quarterly)</td>
<td>Backtests for aggregate and individual VaRs; variance explanations</td>
</tr>
<tr>
<td>CIB Risk-Return Package (Monthly)</td>
<td>Market summary; summaries for market, credit, and ops risk; Comprehensive Risk Summary</td>
</tr>
<tr>
<td>Fixed Income Division Package (Monthly)</td>
<td>Market risk commentaries; financial performance and segment detail for the Fixed Income Division</td>
</tr>
<tr>
<td>Equity Division Package (Monthly)</td>
<td>Market risk commentaries; financial performance and segment detail for the Equity Income Division</td>
</tr>
<tr>
<td>Market Risk Summary (Weekly)</td>
<td>VaR, NonVaR, stress test summaries for the desks</td>
</tr>
<tr>
<td>GMIB Profit and Loss Report (available daily)</td>
<td>Revenues for all GMIB Trading-related businesses</td>
</tr>
<tr>
<td>Structured Transaction Reports (monthly – contained in the Risk and Return package)</td>
<td>Valuation detail for structured transactions</td>
</tr>
<tr>
<td>Principal Investing Valuation Oversight Committee Package (Quarterly)</td>
<td>Presented to regulators at a quarterly meeting with Principal Investing; performance; performance versus plan; current events; large investments and watch lists</td>
</tr>
<tr>
<td>Internal Audit Reports (As available)</td>
<td>Provide assessment of internal controls for CIB and businesses/desks/functions within CIB. Cover front, middle, and back office operations. Provide information regarding specific issues such as trade capture, valuation, and reserves.</td>
</tr>
</tbody>
</table>
Market – Banking Book

The resources in the adjacent chart are those regularly referenced in the continuous monitoring process. The chart does not include one-off resources such as internal presentations and special request information.

With regard to the MIS listed below, the monthly ALCO package, Liquidity and Capital Planning Committee Package, LFI Liquidity Template, and Deposit Information report are the main reports on which we focus. They will be posted to the team supervisory database routinely with key takeaways noted.

<table>
<thead>
<tr>
<th>Internal Report</th>
<th>Key Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALCO Package (Monthly)</td>
<td>Portfolio update, interest rate risk sensitivity analysis (EAR monthly, EVE quarterly), significant Treasury activity and new products, liquidity, securitization activity, prior meeting minutes</td>
</tr>
<tr>
<td>Liquidity and Capital Planning Committee Package (Monthly)</td>
<td>Capital ratios, balance sheet liquidity metrics, liquidity trends, quarterly scenario analysis, funding projections, debt activity, investor concentration limits, wholesale funding activity, parent company funding projection</td>
</tr>
<tr>
<td>Treasury Committee Package (Semi-monthly)</td>
<td>Similar to ALCO and Liquidity packages, but generally provides more detail as meeting participants are business line staff. Economic updates, interest rate risk sensitivity, liquidity projections, wholesale loan activity, portfolio pricing reports, BOLI</td>
</tr>
<tr>
<td>CIB Risk-Return Package (Monthly)</td>
<td>Market summary; summaries for market, credit, and op risk; Comprehensive Risk Summary</td>
</tr>
<tr>
<td>New Product Approval Committee Package and Minutes (As needed)</td>
<td>Summaries presented to NPA Committee for all Treasury activity</td>
</tr>
<tr>
<td>O/N Funding (Weekly)</td>
<td>OCC requested report for overnight funding need project and historical tracking. Contact: Keith Hasket</td>
</tr>
<tr>
<td>LFI Liquidity Template (Weekly)</td>
<td>Fed requested report to assess short term funding needs and available sources. Contact: Keith Hasket</td>
</tr>
<tr>
<td>Deposit Information (Monthly)</td>
<td>Deposit trend information. Contact: Greg Critcher</td>
</tr>
<tr>
<td>Liquid Asset Detail (Monthly)</td>
<td>Detail on liquid assets. Contact: O'Neal</td>
</tr>
<tr>
<td>Securitization Reports (Quarterly)</td>
<td>Detail on securitization and residual information. Contact: Star group</td>
</tr>
</tbody>
</table>

Operational

Enterprise Technology and Operational Risk Continuous Monitoring

Analysis of Internal MIS, Regulatory Reports, and Public Information. The reports listed in the table below comprise the majority of MIS that we receive on a routine basis. Although they represent significant information necessary to our ongoing supervisory work they are only one source of information for continuous monitoring purposes. The team also receives non-routine MIS based on specific supervisory inquiry that adds to the understanding and evaluation of risk issues and the corporation overall.

Due to the varied information we receive from the company on an ongoing basis identifying one or two “primary” information sources is difficult. However, the key MIS we rely on are the Risk, Audit, and Operational Risk Committee packages as well as the executive Senior Risk Committee report. These are routinely loaded onto the supervisory database with key takeaways highlighted.
<table>
<thead>
<tr>
<th>Internal Report</th>
<th>Key Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Committee meeting package (Bi-Monthly)</td>
<td>The Risk Committee of the Board is the primary forum for the Board of Directors to be versed in, and discuss, the most significant issues of the company. The MIS is structured accordingly. The reports will include information from the major business lines and risk areas. These include: Key Risk Update - AML, Compliance Risk Update, Balance Sheet Update, Operational Risk Update, Market Risk Update, Credit Risk Update, and Regulatory / Review Update.</td>
</tr>
<tr>
<td>Audit Committee meeting package (Bi-Monthly)</td>
<td>The committee discusses the most significant risks to the corporation, much like the Risk Committee. In addition to the primary risks, there is a focus on acquisition and merger integrations, corporate initiatives, current Audit results and Internal Audit operations. This is the forum that the regulatory supervisors use to communicate their annual evaluations of the company. The package reflects this coverage.</td>
</tr>
<tr>
<td>Operational Risk Committee meeting package (Quarterly)</td>
<td>Discusses key operational risks from a corporate perspective and is the forum for discussion at a senior management level of the activities undertaken to assess and mitigate the risks. Emerging operational risks are also discussed.</td>
</tr>
<tr>
<td>Senior Risk Committee meeting package (Monthly)</td>
<td>The information includes a breakdown of the corporation’s highest risks, the projects associated with mitigating those risks and the management detailed reports.</td>
</tr>
<tr>
<td>Audit Reports (As completed)</td>
<td>Individual audit reports of completed audit entities. The key issues and matters requiring attention are highlighted as well as management responses and corrective action.</td>
</tr>
<tr>
<td>Audit Project Office (APO) (Bi-Monthly)</td>
<td>This report presents the detail on the most significant corporate projects which the APO monitors.</td>
</tr>
<tr>
<td>IT Audit Status Report (Monthly)</td>
<td>This information covers the status of the annual audit plan, the resolution of open audit issues, IT audit staffing, and other significant events of interest.</td>
</tr>
<tr>
<td>IT Risk Management - Summary Of Risk (SOR) Report (Quarterly)</td>
<td>This report is an assessment of IT Risks grouped by risk categories. It is produced by the Corporate Technology Risk Management (CTRM) function and summarizes all known technology risks from across the enterprise.</td>
</tr>
<tr>
<td>Investment Review Board (IRB) Report (Monthly)</td>
<td>This report summarizes the agenda, decisions, and material reviewed at the monthly Investment Review Board meetings. While separate IRB committees exist for each Line of Business, this report reflects the meetings of the Corporate or Enterprise IRB committee for projects over $250,000.</td>
</tr>
<tr>
<td>Data Center Proximity - Risk Reduction Progress Reports (Quarterly)</td>
<td>Progress reports on Wachovia’s tactical plans to develop and deploy processing to its Oxmoor, out-of-region, data center in Birmingham, Alabama, and thereby remediate its data center proximity risk over the next 2+ years (mid 2009 – mid 2010).</td>
</tr>
<tr>
<td>Data Center Management and Integration - Progress Reports (Quarterly)</td>
<td>Progress reports on Wachovia’s tactical plans to reduce and optimize the number of Wachovia owned Data Centers worldwide, and to integrate newly acquired network aggregation/computing centers into Wachovia’s current inventory of sixty-six locations.</td>
</tr>
<tr>
<td>Annual Business Continuity Plan Test (Annually)</td>
<td>Scope and results of Wachovia’s annual BCP test.</td>
</tr>
<tr>
<td>Information Technology Global Services (ITGS) Progress Reports (Monthly)</td>
<td>Update on status/issues and progress of all Application Development and Maintenance (ADM) projects supported by an off-shore service provider.</td>
</tr>
<tr>
<td>Off-shoring Services Group (OSG) Progress Reports (Monthly)</td>
<td>Update on status/issues and progress of all Business Office Operations (BPO) projects in transition to, or supported by, an off-shore service provider.</td>
</tr>
</tbody>
</table>
Information Technology (IT) Risk Remediation 4-Box Status Reports for the remaining remediation work not yet completed (Monthly)  | Implementation status, progress, and issues associated with the remaining IT risk remediation work focused on the Distributed Server Access Control project known as DSAC II.

CIO Management Reports (Monthly)  | Operating budget, project status, staffing, emerging issues, audit issue resolution, off-shoring, and M&A activity metrics by CIO.

CTO Management Report (Monthly)  | Available through the internal Technology Services Website, covers current issues, project activities, and operational reliability metrics.

Mobile Banking Technology Status Reports (Quarterly)  | This information summarizes the progress and challenges the Mobile Banking technology team is addressing as they deliver new system functionality.

Basel II Project Management Office (Quarterly)  | Quarterly Project/Work Stream Update Package details the progress of each of the associated work efforts around ensuring Basel II

Legal & Compliance

The resources in the adjacent chart are those regularly referenced in the continuous monitoring process. It is expected that the MIS will be adjusted as the new compliance risk manager establishes her program.

Our continuous monitoring efforts are most assisted by certain MIS listed below. Specifically, the Annual Report on Compliance, Quarterly Stop-Light Report, Report of Litigation, Internal Audit Compliance Update, BSA/AML Executive Reporting Summary. We will post these to the supervisory database and note the key takeaways.

<table>
<thead>
<tr>
<th>Internal Report</th>
<th>Key Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Report on Compliance</td>
<td>Chief Compliance Officer presents state of compliance which covers current and emerging compliance issues for the four major lines of business (GBG, CIB, CMC, and WMG), privacy, BSA/AML, ethics, and training</td>
</tr>
<tr>
<td>Quarterly Stoplight Reports</td>
<td>High level compliance risk assessment broken down by business unit.</td>
</tr>
<tr>
<td>Report of Litigation</td>
<td>Provided to the Board of Directors every two months summarizing major cases of litigation.</td>
</tr>
<tr>
<td>Internal Audit Compliance Update</td>
<td>Provides a monthly update on audit reports issued and schedule broken down by audit director.</td>
</tr>
<tr>
<td>Audit Reports (As completed)</td>
<td>Individual audit reports of completed audit entities. The key issues and matters requiring attention are highlighted as well as management responses and corrective action.</td>
</tr>
<tr>
<td>Capital Management Group(CMG)/Wealth Management Group (WMG) LOB</td>
<td>Provides financial and operational information specific to the CMG/WMG businesses. Reports includes WMG operational losses &gt;10k, CMG gains/losses &gt;10k, CMG/WMG BRATS - OCC Top Ten Risks, General Trust Committee minutes package, CMG quality indicators (customer service measurements)</td>
</tr>
<tr>
<td>Privacy Events Log</td>
<td>Quarterly report listing privacy breaches and outcome.</td>
</tr>
</tbody>
</table>
BSA/AML Executive Reporting Summary | Updates the Board of Directors on key events, legal/regulatory actions, examination summary, suspicious activity reporting summary, and OFAC reporting.

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**Basel II**

The resources in the adjacent chart are those regularly referenced in the continuous monitoring process. The chart does not include one-off resources such as internal presentations and special request information. It is expected that a significant amount of MIS will be obtained as implementation approaches.

<table>
<thead>
<tr>
<th><strong>Internal Report</strong></th>
<th><strong>Key Contents</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Management Office (PMO) Basel II Program Status Reports (Monthly)</td>
<td>Summary and detailed progress report on Basel II gap remediation projects and workstreams. These reports focus on high risk Basel II projects as well as the interdependencies among them. Issues that are driving any project delays are summarized with remediation timelines noted.</td>
</tr>
<tr>
<td>Audit Project Office (APO) Basel II Program Status Reports (Monthly)</td>
<td>Summary progress report on Basel II gap remediation projects and workstreams, and audit issues raised by APO. These reports are submitted to the SRC (Steering Committee for Basel II)</td>
</tr>
</tbody>
</table>

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**Financial Condition**

**Analysis of Internal MIS, Regulatory Reports, and Public Information**

The following table identifies the MIS, regulatory and public information sources utilized in the various monitoring activities listed at the end of this section. Much of the detailed financial information revolves around the production of the corporation’s quarterly earnings release and SEC and Reserve Bank filings. Internal MIS provides a monthly perspective and more detailed information on economic capital allocation by business lines.

<table>
<thead>
<tr>
<th><strong>Internal Reports</strong></th>
<th><strong>Key Contents</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public earnings release materials (Quarterly)</td>
<td>Levels and trends in revenues and expenses by type and within business lines; Net interest income composition; Asset quality data; Shareholder and economic capital data; Regulatory capital ratios.</td>
</tr>
<tr>
<td>Internal Operating Committee package (Monthly)</td>
<td>Business line break-out of revenues, expenses and allocated economic capital; Business line performance metrics.</td>
</tr>
<tr>
<td>Internal annual budget and operating efficiency data (Annual &amp; Ad-hoc)</td>
<td>Target budget levels for income statement activity; Analysis of progress toward announced operating efficiency targets.</td>
</tr>
<tr>
<td>Internal Month-End Closing package (Monthly)</td>
<td>Summary of month-end income statement and balance sheet for corporation. Discloses year-to-date figures and other key metrics.</td>
</tr>
<tr>
<td>Public 10Q / 10K / Annual Reports and Accounts (Quarterly and Annual)</td>
<td>Description of financial activity, legal proceedings, etc; Management discussion and analysis; Financial tables; Regulatory capital values.</td>
</tr>
<tr>
<td>Regulatory FR Y-9C / FR Y-9LP / BHCPR (Quarterly)</td>
<td>Schedule line items and computed ratios.</td>
</tr>
<tr>
<td>Public earnings release materials for peer institutions, FR Y-9Cs / BHCPRs (Quarterly)</td>
<td>Peer revenues and expenses; Asset quality metrics; Comparative capital values; Regulatory ratios.</td>
</tr>
<tr>
<td>Equity analysts’ reports</td>
<td>Earnings and industry factors likely to impact share price.</td>
</tr>
<tr>
<td>Report Type</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Internal economic capital trend reports (Quarterly)</td>
<td>Average economic capital allocated for designated risk types for each business line from quarter to quarter.</td>
</tr>
<tr>
<td>Economic Capital Committee (ECC) Minutes (Quarterly)</td>
<td>Summary of ECC discussions and approvals around changes in methodologies and capital attributions for newly acquired businesses/entities.</td>
</tr>
<tr>
<td>Audit Reports (Ad hoc)</td>
<td>Audit reports specific to economic capital estimations processes, controls and/or governance.</td>
</tr>
<tr>
<td>Internal parent only balance sheet and income statement (Quarterly)</td>
<td>Parent only balance sheet composition.</td>
</tr>
<tr>
<td>Internal Capital Analysis (Monthly and Quarterly)</td>
<td>Summary of capital ratios and levels for bank and corporation.</td>
</tr>
<tr>
<td>Internal audit reports (Monthly)</td>
<td>Condition of controls within business lines and specific subsidiaries.</td>
</tr>
</tbody>
</table>
c. Appendix: Key Meetings

Credit Risk

Routine Continuous Monitoring and Regularly Scheduled Discussions

The discussions listed on the chart that follows are limited to regularly scheduled meetings and do not include ad hoc topical discussions that arise through ongoing monitoring and examination activity. These meetings are particularly important given the minimal amount of analytical narrative that accompanies data in MIS. Most meetings include OCC staff to manage regulatory burden and leverage multiple perspectives. Separate meetings with the OCC will be held, as needed. In addition, we hold discussions as needed with the OTS, the primary regulator for Golden West, to leverage their knowledge.

Other regularly scheduled discussions may be added to this list during the 2008/9 regulatory cycle. Meetings with credit card will be added as their volume ramps up as well as with LOBs for any material new products.

News/follow-up about these meetings are noted in our monthly report and/or minutes of meetings posted on the Wachovia database.

<table>
<thead>
<tr>
<th>Meeting &amp; Frequency</th>
<th>Primary Contact</th>
<th>Key Discussion Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIB Risk Management (Monthly)</td>
<td>Ryan Zanin, CIB Director of Risk Management</td>
<td>Current events; risk positions; respond to regulators’ questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; covers credit and market risk areas</td>
</tr>
<tr>
<td>GBG Risk Management (Quarterly)</td>
<td>Mark Midkiff, head of GBG Risk</td>
<td>Current events; risk positions; response to regulators’ questions; new products/strategies; Risk Management concerns</td>
</tr>
<tr>
<td>GBG Consumer Risk</td>
<td>David Nole, Head of Consumer Risk</td>
<td>Risk management concerns re consumer risk; special attention to Golden West acquisition</td>
</tr>
<tr>
<td>Risk Management (Quarterly)</td>
<td>Don Truslow, Head of Risk Management</td>
<td>Regulatory and Risk Management perspectives on corporate-wide risk</td>
</tr>
<tr>
<td>Internal Audit (Bi-Monthly)</td>
<td>Paul McLinko</td>
<td>Current audit schedule; findings of recent audits; audit perspective on risk</td>
</tr>
<tr>
<td>Golden West Regulators Meeting (Quarterly)</td>
<td>John Campbell, GW Laura Hearl, OTS</td>
<td>Portfolio and market trends, performance, portfolio characteristics, Deferred Interest Committee meetings</td>
</tr>
<tr>
<td>Credit Review (Quarterly)</td>
<td>Elizabeth Laudun</td>
<td>Findings of recent credit risk reviews; Credit Risk Review perspective on risk</td>
</tr>
</tbody>
</table>
Market- TB

Routine Continuous Monitoring and Regularly Scheduled Discussions

The discussions listed are limited to the regularly scheduled meetings and do not include ad hoc topical discussions that arise through ongoing monitoring and examination activity. Meeting with Adam Litke, Director of CIB Market Risk Management, is key to monitoring risk, as the meeting provides strong content on risks, positions, and performance. In addition, Mr. Litke has proven to be an excellent resource for both high-level and detailed information. All meetings include OCC examination staff to manage regulatory burden and leverage multiple perspectives. Separate meetings with the OCC and the SEC will be held, as needed.

Other regularly scheduled discussions include bi-weekly meetings with CIB Finance (Rob Rottmann), quarterly updates with business line management, and weekly conversations (part of market disruption monitoring) with counterparty credit and market risk.

<table>
<thead>
<tr>
<th>Meeting &amp; Frequency</th>
<th>Primary Contact</th>
<th>Key Discussion Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Risk Management</td>
<td>Adam Litke</td>
<td>Current events; risk positions; respond to regulators' questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; discuss ongoing projects that address concerns such as trade capture, P&amp;L attribution, and stress testing.</td>
</tr>
<tr>
<td>(Monthly)</td>
<td>CIB Director of Market Risk</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office: 212-214-6105</td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:adam.litte@wachovia.com">adam.litte@wachovia.com</a></td>
<td></td>
</tr>
<tr>
<td>CIB Risk Management</td>
<td>Ryan Zanin</td>
<td>Current events; risk positions; respond to regulators' questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; covers credit and market risk areas</td>
</tr>
<tr>
<td>(Monthly)</td>
<td>CIB Director of Risk Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office: 704-374-6291</td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Ryan.Zanin@wachovia.com">Ryan.Zanin@wachovia.com</a></td>
<td></td>
</tr>
<tr>
<td>(Quarterly)</td>
<td>Head of Risk Management</td>
<td></td>
</tr>
<tr>
<td>Internal Audit</td>
<td>Ted Norwood</td>
<td>Discuss current audit schedule; findings of recent audits; audit perspective on risk; covers internal controls including trade processing, technology improvements, compliance with policies &amp; procedures, reserve methodology, and valuation.</td>
</tr>
<tr>
<td>(Bi-Monthly)</td>
<td>Director of CIB Audit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office: 704-383-0145</td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Ted.norwood@wachovia.com">Ted.norwood@wachovia.com</a></td>
<td></td>
</tr>
<tr>
<td>Regulatory Capital</td>
<td>Jennifer Cassidy</td>
<td>Discuss level and changes in regulatory capital; current events in regulatory capital and reporting.</td>
</tr>
<tr>
<td>(Quarterly)</td>
<td>Regulatory Capital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office: 704-374-2189</td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Jennifer.cassidy@wachovia.com">Jennifer.cassidy@wachovia.com</a></td>
<td></td>
</tr>
<tr>
<td>CIB Technology</td>
<td>Susan Certona</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting the Corporate Investment Bank. Includes the Service Oriented Architecture (SOA) project, a project that covers technology for front, middle, and back office.</td>
</tr>
<tr>
<td>(Monthly)</td>
<td>CIB Chief Information Officer</td>
<td></td>
</tr>
<tr>
<td>CIB Finance</td>
<td>Robert Rottmann</td>
<td>Discuss current performance of GMIB trading businesses, changes in accounting, valuations, price testing, business strategy.</td>
</tr>
<tr>
<td>(Bi-weekly)</td>
<td>CIB Product Controller</td>
<td></td>
</tr>
<tr>
<td></td>
<td><a href="mailto:Robert.Rottmann4@wachovia.com">Robert.Rottmann4@wachovia.com</a></td>
<td></td>
</tr>
<tr>
<td>Counterparty Credit Risk (Quarterly)</td>
<td>Austin Rodgers Managing Director – Issuer, Counterparty, and Treasury Risk</td>
<td>Current events; risk positions; respond to regulators’ questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns;</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Market Disruption Update (Weekly)</td>
<td>Adam Litke Director of Market Risk Management Austin Rodgers/Terry Messmer CIB Counterparty Credit</td>
<td>Weekly call to discuss recent market events, changes in risk profile, counterparty updates, etc. Discussion topics vary based on weekly market concerns.</td>
</tr>
<tr>
<td>Basel 2 (Quarterly)</td>
<td>Adam Litke Director of Market Risk Management</td>
<td>Discuss current status of Basel preparedness for market and counterparty credit risk; meetings will include OCC &amp; FRB dedicated team members, along with subject matter specialists from each agency. (For a description of Basel activity, please see that section of the plan.)</td>
</tr>
</tbody>
</table>

### Market – Banking Book

**Routine Continuous Monitoring and Regularly Scheduled Discussions**

The focus of the OME will be to continue to build lines of communication with management to identify and update new and existing risks and business strategies/products. To accomplish this task the following items/tasks will be completed.

The discussions listed on the chart that follows are limited to regularly scheduled meetings and do not include ad hoc topical discussions that arise through ongoing monitoring and examination activity. Given the ongoing market disruption the frequency of the above noted meetings/reports have been accelerated on an as needed basis. Further, the bank has recently been placed under a Memorandum of Understanding relating to its distressed condition. This will result in additional meetings and/or increased frequency.

**Regularly Scheduled Discussions:**

<table>
<thead>
<tr>
<th>Meeting &amp; Frequency</th>
<th>Primary Contact</th>
<th>Key Discussion Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Risk Sensitivity / Corporate Forecast Group (Monthly)</td>
<td>Deron Smithy Head of Corporate Forecast Group</td>
<td>Current events; risk positions; respond to regulators’ questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; 2008/9 focus will be on completion of BW model, GW impact, challenging rate environment</td>
</tr>
<tr>
<td>CIB Risk Management (Monthly)</td>
<td>David Gaines Chief Risk Officer – Corporate &amp; Investment Bank</td>
<td>Current events; risk positions; respond to regulators’ questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; covers credit and market risk areas</td>
</tr>
<tr>
<td>Internal Audit - Treasury (Bi-Monthly)</td>
<td>Mike Balbinie / Rolando Young</td>
<td>Discuss current audit schedule; findings of recent audits; audit perspective on risk; focus will be on Treasury activities</td>
</tr>
<tr>
<td>Internal Audit – CIB</td>
<td>Ted Norwood</td>
<td>Discuss current audit schedule;</td>
</tr>
</tbody>
</table>

CONFIDENTIAL
FCIC-136579
(Bi-Monthly)  
Director of CIB Audit  
findings of recent audits; audit perspective on risk; focus is on investment banking activities

Liquidity Risk Management  
(Quarterly)  
Angus McBryde  
Balance Sheet Management  
Current events; risk positions; respond to regulators' questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; 2008/9 focus will be on tightening liquidity environment, Enterprise Funding Initiative, funding diversification and expansion of European activity

Treasury Risk Management  
(Quarterly)  
James Johnson  
Treasury Risk Manager  
Current events; risk positions; respond to regulators' questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; 2008/9 focus will be on new BlackRock model, ongoing economic and revenue challenges, securitization activity

Counterparty Credit Risk  
(Quarterly)  
Austin Rodgers  
Managing Director – Issuer, Counterparty, and Treasury Risk  
Current events; risk positions; respond to regulators' questions, which are typically derived from listed MIS; new products/strategies; Risk Management concerns; 2008/9 focus will be on remediation of 2005 exam deficiencies, including projects around Adaptiv, risk methodologies, reconciliations; also discuss business activity and trends risk management staff is seeing

Operational

Enterprise Technology and Operational Risk Continuous Monitoring

Regularly Scheduled Discussions

Our supervisory evaluation of the company, and the risks to it, relies heavily on the information we receive through the following discussions with management. These meetings provide an opportunity to receive both written and verbal information on various topics and to pose questions to management. Due to the routine nature of the meetings we are able to more formally evaluate information on a period-to-period basis and note changes in the risk levels. They also provide us forums to communicate with management.

As appropriate, management's efforts to strengthen governance practices and comply with the elements of the MOU will be incorporated into regularly scheduled discussions, and where appropriate, separate meetings will be scheduled. Additionally, progress meetings specific to the MOU will be scheduled once management determines their MOU oversight infrastructure. Examiners will also review and assess MIS associated with the MOU compliance efforts.
<table>
<thead>
<tr>
<th>Meeting &amp; Frequency</th>
<th>Primary Contact</th>
<th>Key Discussion Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Risk Management (Monthly)</td>
<td>Pamela Rooney, Corporate Operational Risk Executive, &amp; Direct Reports LOB Operational Risk Managers</td>
<td>Current program updates, corporate initiatives, significant events; review current MIS and reports; Operational Risk Management concerns. Focus in 2009 will be on current operational risk topics, status of program enhancements, efforts to further entrench corporate standards into business practices, and efforts towards compliance with the finalized Basel rules.</td>
</tr>
<tr>
<td>Audit Manager Meeting (Monthly)</td>
<td>David Julian, General Auditor, Mike Balbirnie, Audit COO, Cheryl Bradshaw, Audit Professional Practices</td>
<td>Review regulatory issues, discuss Audit Department organizational updates, Discuss significant corporate risk issues/emerging risks, specific audit reports and MIS sent to the Senior Risk Committee. Audit coverage is by risk area with monthly and bi-monthly meetings with audit managing directors over each risk area. Focus in 2009 will be on ensuring continued improvement in the audit program (IT in particular), the effect that management and organizational changes have had on the effectiveness of the function, and efforts to address existing MRAs.</td>
</tr>
<tr>
<td>Sarbanes-Oxley Update Meeting (Quarterly)</td>
<td>Mark Sullivan, Corporate Financial Control Pat Cave, Program Director</td>
<td>Update on efforts to address significant deficiencies remaining, discuss changes in the program if any, regulator review of, and question/answer session on MIS. Focus in 2009 will be on ensuring that continuing effort is made to address the remaining significant deficiencies.</td>
</tr>
<tr>
<td>Outsourcing and Off-Shoring Update Meeting (Quarterly)</td>
<td>Mike Monaghan, SVP Vendor Management, Liz Ash, SVP, IT Global Sourcing Project Office</td>
<td>Update on outsourcing and off-shoring activity to include technology application development and maintenance (ADM) projects and business process off-shoring (BPO) activity. Focus in 2009 will be on the increasing number of business processes moving off-shore, the maturity and security of the technology infrastructure, and opportunities to expand to other countries.</td>
</tr>
<tr>
<td>Audit Managing Directors Meeting (Depends on area. Most are Monthly, Some are Bi-Monthly)</td>
<td>Karen Hampson, Compliance and Enterp. Operations Karen Holloman, Enterprise Technology Ted Norwood, Investment Banking John Daehler, Capital &amp; Wealth Mgmt. Mike Balbirnie, Acting MD Treasury Donnie Pickett, Fin. &amp; Corp. Activities Paul McLinko, Corp. &amp; Comm. Banking Phillip Taylor, Audit Project Office</td>
<td>The meeting is to discuss the findings from each audit including the Key Issues (most significant) and Matters Requiring Attention (less significant). The Managing Directors lead the discussion with their audit managers providing details. Both the OCC and Fed coordinate their attendance at these meetings. Focus of these meetings is on the audits scheduled, in-process, and completed as well as the issues raised within the audits or during monitoring activities.</td>
</tr>
<tr>
<td>Audit – Basel (Monthly)</td>
<td>Phillip Taylor, APO</td>
<td>MIS devoted toward coverage of the Basel II project is discussed. Focus in 2009 will be on audit’s validation process of the completed Basel II project work and preparations for parallel testing in fourth quarter, 2009.</td>
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<tr>
<td>KPMG (Quarterly)</td>
<td>James Liddy, Partner, David Reavy, Partner</td>
<td>This meeting is an opportunity for the regulators, KPMG and Internal Audit to discuss issues they are seeing. KPMG, as external auditors to the company will discuss the work they have been contracted to do and will also raise issues they are seeing in the industry for supervisory input. The OCC and Fed will review the work they have performed and that which is planned. Focus in 2009 will be on KPMG’s contract work for the company, including leveraging Internal Audit and KPMG efforts resulting from changing and challenging conditions.</td>
</tr>
<tr>
<td>Corporate Risk (Quarterly)</td>
<td>Don Truslow, Chief Risk Officer</td>
<td>This meeting is attended by the company’s risk area leads as well as the team risk leads of the OCC and Fed. The key issues for each risk area discussed. Focus in 2009 will be to continue transitioning the format of the meeting to be more interactive with the CRO, on the institution’s efforts to deal with challenging economic times, changes the new CEO, Robert Steele implements in the risk management area.</td>
</tr>
<tr>
<td>Business Continuity Plan Test (Annually)</td>
<td>John Corbin, Director, Enterprise BCP, Pat Rosa, Manager Technology Recovery</td>
<td>Scope discussion meetings prior to and results following the company’s annual enterprise BCP tests. Focus in 2009 will be to assess the scope, success, and reporting of testing of the BCP plan and scope, success, and testing of the enterprise Pandemic Plan, plus its new escalation provisions tied to World Health Organization alert levels.</td>
</tr>
<tr>
<td>Operations, Technology, and Ecommerce (OTE) Update (Quarterly)</td>
<td>Jerry Enos, EVP OTE</td>
<td>Business level discussions of regulatory issues, organizational updates, significant IT issues/emerging risks, progress the company is making toward completing the remaining IT risk remediation project work, progress on proximity risk and implementing a long-term data center strategy, progress toward outsourcing and off-shoring technology and back office business operations, and the impact on the IT organization of Mergers and Acquisitions such as AG Edwards. Focus in 2009 will be on the overall information technology management process by the OTE organization in a challenging business environment.</td>
</tr>
<tr>
<td>CTO and CCIO Update Meeting (Bi-Monthly)</td>
<td>Jim Dinmore, Chief Technology Officer (CTO), Martin Davis, Corporate Chief Information Officer (CCIO)</td>
<td>Technology level discussions of regulatory issues. These include organizational updates, significant IT issues/emerging risks, progress the company is making toward completing the remaining IT risk remediation work, progress on proximity risk and implementing a long-term data center strategy. The IT Operating Model is also discussed. Focus in 2009 will be on strategy and execution management by the enterprise IT organization; plus the quarterly Business Self Assessment (BSA) risk identification process, and the monthly Risk Portfolio Management (RPM) process within the IT organization.</td>
</tr>
<tr>
<td>IT Risk Management Update (Bi-Monthly)</td>
<td>Beth Robinson, Mgr., IT Risk Management</td>
<td>Technology level discussion of specific IT risks/emerging issues, project milestones for the four ongoing IT risk remediation projects, plus quarterly a</td>
</tr>
<tr>
<td>CIO – General Bank Group (Monthly)</td>
<td>Theresa Wilson, CIO</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting the General Bank Group. Focus in 2009 will be on enterprise initiatives and line of business new projects in a challenging business and technology environment.</td>
</tr>
<tr>
<td>CIO – Mortgage and Lending Group (Monthly)</td>
<td>Mark Ladiner, CIO</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting the Mortgage and Lending Group. Focus in 2009 will be on enterprise initiatives and line of business new projects in a challenging business and technology environment.</td>
</tr>
<tr>
<td>CIO – Corporate Investment Bank (Monthly)</td>
<td>Susan Certoma, CIO</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting the Corporate Investment Bank. Focus in 2009 will be on enterprise initiatives and line of business new projects in a challenging business and technology environment.</td>
</tr>
<tr>
<td>CIO – Shared Services (Monthly)</td>
<td>Jim Spicer, CIO</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting Shared Services. Focus in 2009 will be on enterprise initiatives and line of business new projects in a challenging business and technology environment.</td>
</tr>
<tr>
<td>CIO – Wachovia Securities (Quarterly)</td>
<td>Mark Hammersmith, CIO</td>
<td>Current project updates, corporate initiatives, significant events; audit reports, off-shoring activity, organizational changes, impact of M&amp;A activity on the application systems supporting Wachovia Securities. Focus in 2009 will be on the integration of AG Edwards into Wachovia Securities, and enterprise initiatives and line of business projects in a challenging business and technology environment.</td>
</tr>
<tr>
<td>IT Audit Managers Meeting (Monthly)</td>
<td>Karen Holloman, Managing Director, IT Audit And her IT audit managers/directors</td>
<td>Status of the annual audit plan, resolution of open audit issues, IT audit staffing and training, corporate initiatives, significant events; and organizational changes. Focus in 2009 will be on ensuring continued improvement in the IT audit program.</td>
</tr>
<tr>
<td>Corporate Information Security (CIS) Update (Monthly)</td>
<td>Steve Scott, Director of CIS</td>
<td>Corporate information security initiatives, significant events; audit reports, off-shoring activity, organizational changes, and impact of M&amp;A activity on the IT security organization and the company’s security processes. Focus in 2009 will be on enterprise initiatives and new information security projects and efforts to control unauthorized professional hacking attempts by the Russian Business Network.</td>
</tr>
<tr>
<td>Basel II – Risk Data</td>
<td>Jackie Burton, Project Manager</td>
<td>Project update, milestone progress, issues as this data</td>
</tr>
<tr>
<td>Strategy Database (RDS) Project Update (Monthly)</td>
<td>The meetings are held in conjunction with the OCC. The discussion centers on a review of the work streams and underlying projects. The group discusses issues or concerns and what efforts are being taken to address them. Focus in 2009 will be similar to 2008 in that we will continue to evaluate the level of preparedness. With the finalization of the standards and preparations to begin parallel testing in October 2009, we will evaluate any gaps in the coverage or implementation plans, and/or issues with project completion.</td>
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<tr>
<td>Basel II – PMO</td>
<td>Yousef Valine, Executive Sponsor Tina Angelichio, Executive Project Manager</td>
<td></td>
</tr>
<tr>
<td>Payment Systems Strategy Group (Quarterly)</td>
<td>Discussion focuses on payment channels used to transact company business, key risk issues, changes in company and industry operations, emerging risks. The meeting is also a forum for sharing information on Fed payment system related activities, and proposed policy changes.</td>
<td></td>
</tr>
<tr>
<td>Corporate Finance (Quarterly)</td>
<td>Pete Carlson, Controller Mark Sullivan, Corporate Financial Control</td>
<td></td>
</tr>
<tr>
<td>Compliance Update on IT Security Events (Quarterly)</td>
<td>The meetings are held in conjunction with the OCC for the national bank portion of Wachovia, and separately with the FED for the non-bank issues (such as Wachovia Securities). The discussion centers on a review of all reported compliance issues over the past quarter and year-to-date.</td>
<td></td>
</tr>
</tbody>
</table>

| Lou Anne Alexander SVP - Director Payment Strategies Group Lorraine E. Fischer SVP - Payment Strategies |

60
Legal and Compliance

Routine Continuous Monitoring and Regularly Scheduled Discussions

The discussions listed are limited to the regularly scheduled meetings and do not include ad hoc topical discussions that arise through ongoing monitoring and examination activity.

<table>
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<tr>
<td>Compliance Risk Management (Quarterly)</td>
<td>Deborah Davis, Chief Compliance Officer</td>
<td>Current compliance issues, annual compliance report, stoplight report, updates on previously discussed issues, examination/audit results</td>
</tr>
<tr>
<td>Bi-monthly BSA/AML Update (Bi-monthly)</td>
<td>Dan Soto, BSA/AML Officer</td>
<td>Current issues related to BSA/AML, updates on key projects, training, review board report</td>
</tr>
<tr>
<td>Risk Management (Quarterly)</td>
<td>Don Truslow Head of Risk Management</td>
<td>Regulatory and Risk Management perspectives on corporate-wide risk</td>
</tr>
<tr>
<td>CMG/WMG Risk Management (Quarterly)</td>
<td>Bill Dawson Head of CMG/WMG Risk Management</td>
<td>Discuss risk management areas of focus in the CMG/WMG lines of business.</td>
</tr>
<tr>
<td>Internal Audit (Bi-Monthly)</td>
<td>Karen Hampson Director Audit Compliance Office</td>
<td>Discuss current audit schedule, findings of recent audits, audit perspective on risk, current regulatory exam results and issues</td>
</tr>
<tr>
<td>Internal Audit (Bi-monthly)</td>
<td>John Dashner Director CMG/WMG Audit</td>
<td>Discuss current audit schedule, findings of recent audits, audit perspective on risk, current regulatory exam results and issues</td>
</tr>
<tr>
<td>Markets Businesses Compliance (Quarterly)</td>
<td>Bob Mulligan, Compliance Managing Director</td>
<td>Current compliance issues in their institutional broker/dealer (CIB), retail broker/dealer (Wachovia Securities, LLC), and Evergreen Mutual Funds; discuss stoplight reports, recent examinations (NASD, NYSE, SEC) and audit results</td>
</tr>
<tr>
<td>Banking Businesses Compliance (Quarterly)</td>
<td>Carl Cowart, Compliance Managing Director</td>
<td>Current compliance issues in the general bank businesses, discuss stoplight reports and audit results</td>
</tr>
<tr>
<td>International Compliance (Quarterly)</td>
<td>Chuck Richard, Compliance Managing Director</td>
<td>Current compliance issues in their international businesses, discuss stoplight reports, examination results, and audit results</td>
</tr>
<tr>
<td>Privacy Office (Bi-monthly)</td>
<td>Campbell Tucker, Privacy Officer</td>
<td>Update on privacy breaches and outcomes</td>
</tr>
<tr>
<td>Litigation (Quarterly)</td>
<td>Doug Edwards, Head of Litigation Group</td>
<td>Update on major litigation against Corporation</td>
</tr>
<tr>
<td>Wachovia Securities LLC (Quarterly)</td>
<td>Bob McCarthy, Regulatory Relations</td>
<td>Current compliance issues, recent examination and audit results, risk management, financials – 2004 SEC exam finding (focus filings, net capital)</td>
</tr>
<tr>
<td>SEC - Chicago Office (Annually)</td>
<td>Dan Gregovich, Branch Chief supervises Wachovia Securities retail broker/dealer</td>
<td>Most recent examination results, issues that may impact corporation or they may need us to examine due to located under the corporation</td>
</tr>
<tr>
<td>SEC - Atlanta Office (Annually)</td>
<td>Howard Dennis, Branch Chief supervises CIB broker/dealer</td>
<td>Most recent examination results, issues that may impact corporation or they may need us to examine due to located under the corporation</td>
</tr>
</tbody>
</table>
Basel II

**Routine Continuous Monitoring and Regularly Scheduled Discussions**

The discussions listed are limited to the regularly scheduled meetings and do not include the many ad hoc discussions that will occur as the company approaches the parallel run.

<table>
<thead>
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<th>Meeting &amp; Frequency</th>
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<tr>
<td>PMO Meeting (Monthly)</td>
<td>Tina Angelichio, B2 Program Executive Project Manager Dan Rodgers, PMO Deputy</td>
<td>These briefings give the regulators an update on the status of implementation for projects by workstream. Basel II implementation is a large complex project that requires central oversight and coordination. A significant number of projects do not have approved project estimates and timelines.</td>
</tr>
<tr>
<td>Audit – Basel (Monthly)</td>
<td>Arlene Chatman, Basel II APO Mike Balbinic, Audit COO Phillip Taylor, Head of APO</td>
<td>Tracking of Basel related audit activities as well as progress of Basel II implementation. APO evaluates quality and completeness of audit programs for Basel related testing to Basel standards. Although Audit has played a significant role thus far, additional focus will be required around Board oversight, quality assurance, gap resolution and final qualification process. Focus in 2008 will be on audit’s validation process of the completed Basel project.</td>
</tr>
<tr>
<td>Technical Requirements Team (Ad Hoc)</td>
<td>Gary Wilhite, Jennifer Grennon, Tina Angelichio, OCC</td>
<td>This meeting is the forum used to raise issues critical to the ongoing compliance of the B-II program. The issues are typically very complex and usually require supervisory opinion from both supervisory agencies.</td>
</tr>
<tr>
<td>OCC Coordinator Meeting (at least monthly)</td>
<td>Ranche Isquith, OCC – Basel II Coordinator</td>
<td>Monthly meetings with OCC Basel II Coordinator (WB Team) to coordinate planning, on-going supervision and target examination work.</td>
</tr>
<tr>
<td>Basel 2 (Ad Hoc)</td>
<td>Adam Litke Director of CIB Market Risk Management</td>
<td>Discuss current status of Basel preparedness for market and counterparty credit risk; meetings will include OCC &amp; FRB dedicated team members, along with subject matter specialists from each agency. (For a description of Basel activity, please see that section of the plan.)</td>
</tr>
<tr>
<td>Securitizations &amp; Equities – Basel II &amp; Liquidity (Quarterly)</td>
<td>Tina Angelichio, Executive Project Manager, Jennifer Cassidy – Program Sponsor, Rick Orr – PMO representative</td>
<td>Format of meetings will be to assess the company’s efforts to comply with the securitization framework of Basel II. This includes evaluating the appropriateness of policies, procedures, approaches, and methodologies.</td>
</tr>
<tr>
<td>RDS Meeting (See Op Section)</td>
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</table>

Note: Company has indicated desire to move to separate meetings for each workstream. Although not currently on the schedule these meetings will begin in August and will have varying duration and timing.
Financial Condition

Routine Continuous Monitoring and Regularly Scheduled Discussions

Earnings meetings with management and subsequent meetings with the external auditors, KPMG, focus on the financial activity of the prior quarter. Key events and significant changes from normal / prior activity are discussed. Forthcoming events, transactions, policy changes or accounting treatments that may impact future quarters are discussed. Regulatory capital and reporting meetings also review recent and forthcoming relevant transactions. Quarterly Economic Capital Committee minutes are reviewed to assess and evaluate the Treasury function’s Economic Capital Unit and drivers behind changes in Economic Capital attributions. Additional meetings may be added to ensure adequate visibility on the composition of parent-only liquidity and investments.

Financials: Earnings & Capital
Quarterly and ad-hoc review of financial outcomes, budgets and trends including determinants of movements in capital, asset quality, earnings and liquidity. Determination of the “F” component rating for the RFI/C(D) rating system.

Financials: Peer Analysis
This will include the development and validation of informative comparisons between Wachovia and its LCBO peers. Data comparisons will be developed in conjunction with LCBO analysts across the System. Results will feed into the “F” component rating for the corporation.

Economic Capital: Trend Analysis
The team analyst will review the level and trend of economic capital allocated by business unit and risk type, on a quarterly basis. The purpose will be to develop an understanding of and critique the methodology in respect to the use of economic capital / RAROC numbers as risk performance indicators and as a management tool. This will include understanding the drivers of changes in EC to determine the changes in the related risk profile. To compliment this assessment, the analyst will review of the quarterly Economic Capital Committee Minutes.

Financials: Internal MIS Detail
The ongoing scrutiny of consolidated financials will be enhanced by establishing linkages between lead or explanatory indicators within received internal MIS and the quarterly earnings results. Internal MIS will be reviewed to identify these metrics.

Parent Monitoring
Parent only liquidity and leverage will be monitored on an ongoing basis. Investments booked within the parent FHC will be tracked. The monitoring will feed into the determination of the “I” component rating for the corporation. Meetings will be identified or established to improve the current supervisory coverage of parent only liquidity, leverage and investments.

Regulatory Reporting
The implementation of the proposed new regulatory reporting software will be monitored. Progress will be discussed within the quarterly regulatory capital and reporting meeting. Regulatory return data will be monitored for any impact.
<table>
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<tr>
<td>Earnings announcement meetings (Quarterly)</td>
<td>Mark Reynolds, Corporate Accounting</td>
<td>Key financial results of the corporation for the prior quarter, to be made public in the immanent earnings announcement; Unusual fluctuations and transactions unique to the quarter.</td>
</tr>
<tr>
<td>Accounting issues meeting with KPMG (Quarterly)</td>
<td>David Julian, Audit</td>
<td>Accounting treatment of non-routine transactions in the prior quarter; Forthcoming FASB pronouncements and accounting issues.</td>
</tr>
<tr>
<td>Internal audit – Accounting &amp; financial control (Bi-Monthly)</td>
<td>Donnie Pickett, Audit</td>
<td>Recently completed and in-progress audits relating to financial control.</td>
</tr>
<tr>
<td>Quarterly capital meetings</td>
<td>Pete Carlson, External Reporting</td>
<td>Regulatory capital composition and regulatory reporting.</td>
</tr>
<tr>
<td>Economic Capital Meeting (Quarterly)</td>
<td>Julie Hilsher, Treasury</td>
<td>Drivers behind changes/trends in economic capital attribution by risk dimension and line of business</td>
</tr>
<tr>
<td>Fair Value Measurement &amp; Option Meeting (Annual)</td>
<td>Lynn Rodgers, External Reporting</td>
<td>Discuss changes to policy and procedures, alterations in election methods, adoption implications and benefits, and overall financial effect.</td>
</tr>
<tr>
<td>Economic Capital Methodology Update Meeting (Annual)</td>
<td>Gary Wilhite, Credit Risk Management</td>
<td>Rationale of changes/updates to economic capital methodologies and the impact on economic capital attributions by risk and line of business</td>
</tr>
</tbody>
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Credit

Calendar Year 2008:
OCC-Led Exams (FRB participated):
  • Shared National Credits

Calendar Year 2007:
OCC-Led Exams (FRB participated):
  • Risk Rating Replication
  • Shared National Credits

Calendar Year 2006:
OCC-Led Exams (FRB participated):
  • Shared National Credits

Market – TB

Calendar Year 2008:
Concurrent OCC and FRB Exams:
  • Market risk management exam
  • Counterparty credit exam

OCC-Led Exams (FRB participated):
  • Complex Products

FRB-led Exams:
  • Principal Investing

Calendar Year 2007:
Concurrent OCC and FRB Exams:
  • Market risk management exam
  • Equities Division

OCC-Led Exams (FRB participated):
  • Structured Products exam
  • Credit Products
  • Price Verification

FRB-led Exams:
  • Principal Investing fr y-12 reporting follow-up

Calendar Year 2006:
Concurrent OCC and FRB Exams:
  • Market risk management exam
OCC-led Exams (FRB participated):
  • Structured Products exam

FRB-led Exams
  • Principal Investing

Market – BB

Calendar Year 2008:

OCC-led Exams (FRB participated):
  • Investment Portfolio
  • Bank Owned Life Insurance

Joint Exams (FRB and OCC):
  • Liquidity Exam

Calendar Year 2007:

FRB-Led Exams:
  • Edge Act and WSIL
  • Securitization Horizontal
  • Economic Capital Horizontal

OCC-led Exams (FRB participated):
  • Interest Rate Risk
  • Counterparty Credit

Calendar Year 2006:

FRB-Led Exams:
  • Edge Act
  • Stress Test Horizontal

OCC-Led Exams (FRB participated):
  • Counterparty Credit
  • Investment Portfolio

Operational

Calendar Year 2008:

FRB-Led Exams (OCC participated):
  • FRB Horizontal – Pandemic Preparedness Plan

Joint Exams (FRB and OCC):
  • Capital Modeling (focused continuous monitoring)

OCC-Led Exams (FRB participated):
• eCommerce -- Multi-Factory Authentication and Mobile Banking
• Corporate Information Security / GLBA (Gamm-Leach-Bliley Act)
• Enterprise IT Risk Management
• Business Continuity/Pandemic Planning
• Outsourced/Off-shored Vendor Management
• Corporate Operational Risk Management (focused continuous monitoring)
• Internal Audit (Annual Assessment)
• Commercial & Investment Bank Ops Risk Management (focused continuous monitoring)
• Wealth Management Ops Risk Management (focused continuous monitoring)
• SOX

Calendar Year 2007:

FRB-Led Exams (OCC participated):
• Scenario Analysis

Joint Exams (FRB and OCC):
• Internal Audits (Annual Assessment)
• Capital Modeling (focused continuous monitoring)

OCC-Led Exams (FRB participated):
• IT Risk Remediation Project Validation
• IT Risk Management
• Business Continuity/Pandemic Planning
• Corporate Information Security (CIS)
• Corporate Risk Management and Governance
• Scenario Analysis (follow-up to 2Q07 review)
• Data Integrity (Operational Loss Data focused continuous monitoring)
• General Banking Group Ops Risk Mgmt (focused continuous monitoring)

Legal & Compliance

Calendar Year 2008:
FRB-Led Exams:
• Edge Act and Agreement Companies (Wachovia International Banking Corporation, Cardinal Leasing, Monument Street Funding I and II)

OCC-Led Exams (FRB participated):
• Casas de cambio BSA/AML review

Calendar Year 2007:
FRB-Led Exams:
• Wachovia Securities International Limited
• BSA/AML

Calendar Year 2006:
FRB-Led Exams:
• Enterprise-wide Compliance Risk Management
• Bluepoint Insurance Services

FRB-Led Exams:
• Wachovia Insurance Services

Financial

Calendar Year 2008:

OCC-led Exams (FRB participated):
• Liquidity and Capital Planning
• Investment Portfolio Review
• Sarbanes-Oxley Act Section 404

Calendar Year 2007:

FRB-Led Exams:
• Edge Act and WSIL

Basel II

(See Operational, Market, and Credit Risk sections above)
VII. Institutional Overview and Risk Assessment Narrative

I. Institutional Overview

Executive Summary

The overall condition of Wachovia Corporation (Wachovia) has declined significantly since the 6-30-07 institutional overview. The company has suffered significant losses due to the market disruption, high provisions, and execution errors. Asset quality has deteriorated in the GoldenWest Financial (GoldenWest) mortgage portfolio as the decline in real estate values has directly affected the quality of this collateral-dependent loan book. The market value of the company has fallen significantly and Wachovia was forced to raise additional capital and cut the dividend. The waning market value triggered a goodwill impairment of $6.1 billion, recognizing the high priced strategic error of purchasing GoldenWest. Our RFI/D (D) assessment of the company reflects the weakened financial condition with a 332/3 (2) rating as of 6-30-08. The company will be operating under a Memorandum of Understanding (MOU) with this Reserve Bank to address the weaknesses in risk management and financial condition.

Wachovia is mainly a US-based institution with limited international business activities outside of foreign correspondent banking. As of 06/30/08, consolidated assets stood at $812.4 billion and like many large financial institutions, Wachovia has derived much of its growth through strategic acquisitions and mergers. At the First Union/Wachovia merger, the company was primarily a commercial lending institution with a branch driven consumer loan base. This risk profile was unchanged with the acquisition of SouthTrust in 2005 and this mix of business (60% commercial 40% consumer) produced a lower-yielding loan book. As a result, the company made the strategic decision to increase both consumer outstandings and the risk profile of the retail lending platform. This began with the 2006 acquisition of WestCorp Financial, a sub and near-prime auto lender in southern California. Then later in 2006, Wachovia announced the purchase of GoldenWest, a monoline option ARM lender with outstandings of $125 billion. These moves shifted the loan mix to 56% consumer and 44% commercial and increased the company exposure to California residential real estate as 60% of the GoldenWest mortgages were California-based.

While Wachovia was expanding its retail business platform, the company also remained a significant player in corporate and investment banking. Wachovia was particularly active in the structured credit markets and was the fourth largest originator of CDOs in 2006. They specialized in the origination and sale of commercial mortgage backed securities (CMBS), but also created and sold complex structures in several asset classes including subprime mortgages. The company also has a large retail brokerage operation, Wachovia Securities, which continues to grow through acquisitions. Most recently, the company purchased AG Edwards and moved its retail brokerage headquarters to St. Louis. Wachovia Securities is now the second largest full service brokerage firm in the country with 1,500 brokerage offices and 18,600 registered representatives.

Going into the market disruption, the business mix described above was problematic as the market disruption affected complex structured products and the decline in real estate values impaired the California-based option ARM book. Write-downs of approximately $5 billion were taken over the last year mostly due to the market disruption. Significant provisions have been required due to the struggling GoldenWest mortgage portfolio. These problems caused the company to lose more than $60 billion of its market value in the past six months. Also, due to insufficient earnings and deteriorating capital levels, Wachovia has been forced to issue $14.7 billion in tier 1 qualifying securities since November 2007. This includes the April issuance of $8 billion that was announced concurrently with the company's decision to cut its dividend by 40%, thus preserving an additional $2 billion of capital annually. More negative news followed when the board ousted longtime Chief Executive Officer, Ken Thompson on June 2. However, on July 9, 2008, Wachovia’s Board of Directors announced Robert K. Steel, who most recently served as Under Secretary for Domestic Finance for the U.S. Department of Treasury, as the company’s new Chief Executive Officer and President.

While the company continues to face significant problems, Wachovia remains the country’s third largest institution by deposit market share and the largest retail bank franchise on the East coast. As noted above, Wachovia already encompasses the nation’s second largest retail brokerage firm, is a top five personal trust provider, and is also a market leader in treasury management and commercial real estate lending. Of the corporation’s $31.6 billion revenue in 2007, some 43% came from noninterest sources, and 56% was

<table>
<thead>
<tr>
<th>Wachovia</th>
<th>6/31/08</th>
<th>YE-2007 Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$812Bn</td>
<td>NII: $18Bn</td>
</tr>
<tr>
<td>Loans</td>
<td>$476Bn</td>
<td>NIM: 2.95%</td>
</tr>
<tr>
<td>NPA / Loans</td>
<td>2.44%</td>
<td>Nonint. Inc.: $136n</td>
</tr>
<tr>
<td>Deposits</td>
<td>$436Bn</td>
<td>Revenue: $32Bn</td>
</tr>
<tr>
<td>Capital</td>
<td>$75Bn</td>
<td>Nonint. Exp.: $20Bn</td>
</tr>
<tr>
<td>Tier1</td>
<td>8.0%</td>
<td>Net Income: $6Bn</td>
</tr>
<tr>
<td>RBCR</td>
<td></td>
<td>ROAA 0.87%</td>
</tr>
<tr>
<td>Tier1 leverage</td>
<td>6.6%</td>
<td>ROA 0.87%</td>
</tr>
</tbody>
</table>
generated by the corporation’s general banking business line. Access to capital markets related revenues has aided the corporation in the face of ongoing net interest margin contraction.

Against a backdrop of the weakest banking conditions in more than 16 years, sudden and severe home price depreciation particularly in certain markets in California and Florida, and relocated capital markets, several actions were taken in early 2008 to fortify Wachovia’s credit reserves and balance sheet. The provision expense totaled $5.6 billion in 2008, with a large over provision of $4.2 billion. Further, Wachovia is projecting a full year provision of $13.9 billion with a $7.9 billion over provision. These expenses are mainly a result of loan losses within the GoldenWest portfolio. Ongoing challenges for 2008 include the performance of the consumer mortgage market, higher charge-offs and continued increases in the allowance, the lack of earnings and capital growth, and expense reductions. The company will have to address these financial challenges while improving risk management and governance, establishing a new risk culture, and integrating a new management team at the top of the house.

Introduction

In setting the context for the Risk Assessment and Supervisory Plan, this Institutional Overview describes the strategies and structures of Wachovia Corporation, together with its performance and regulatory framework. The first section outlines the corporate strategy of the institution, and this is followed by a description of how this strategy is implemented through the corporation’s various lines of business. The extent of the achievement of this implementation is captured in a section on revenues and financial risk drivers. The final three sections outline the risk management framework and legal entity structures of the corporation, together with the broader regulatory scheme faced by the institution.

Corporate Strategy

Wachovia’s overarching corporate strategy has shifted with the market disruption and the problems at GoldenWest. Recent conversations with the newly-hired CEO Bob Steel emphasized the company’s short and long-term strategies. In the first ninety days, the emphasis will be on preserving capital and increasing liquidity while re-assessing/re-establishing the core business model. On the capital front, the company will use all levers economically possible. These include cutting dividends, expense reductions (lay-offs), limiting growth and/or shrinking the balance sheet, selling businesses, selling assets, and raising capital. With liquidity, the company will opportunistically raise excess funds and complete deposit promotions. Also, CEO Steel will emphasize the core business model and execute on high quality service for its existing customer base in the four main business lines (the General Bank Group (GBG), the Corporate and Investment Bank (CIB), the Capital Management Group (CMG), and the Wealth Management Group (WMG)). In the short-term, Wachovia plans to exit the option ARM business, recognizing the mistake of GoldenWest. They will shut down the broker origination channel and offer no closing cost refinance loans to move customers out of the option ARM product.

In the longer term, management would like to strengthen the core activities within its established, diversified business portfolio with an emphasis on customer service and retention. The company will not be pursuing new business outside existing relationships. Management will analyze all business lines to determine which lines and/or portfolios generate diversified revenues worth retaining.

Below we have provided a description of Wachovia’s traditional banking model which targeted consumer banking, corporate and investment banking activities, and retail brokerage and asset management. We recognize this model may be adjusted with strategic sales of business lines in order to shore up the financial condition of the company. The organizational structures of the four business lines are described in detail in the next section, which also outlines the strategic value propositions of each business. It should be noted that prior to the disruption, strategies were implemented within the business lines in pursuit of targets for revenue growth, merger-derived efficiencies, and expense reduction initiatives. Divisional strategies increasingly recognize the need to generate revenue through cross-selling capabilities between the business lines - managed through ‘Client Partnership’ arrangements. One key strategic resource that is utilized by these cross-selling propositions is the corporation’s competence in generating customer satisfaction. (Wachovia has been voted #1 in customer service among banking peers for seven straight years). However, since the disruption and the replacement of former CEO Thompson, the company has shifted to an emphasis on preserving capital and meeting regulatory capital hurdles. This has led to higher funds pricing standards and a general reduction in new business expansion. Revenue is no long the number one goal. The company is emphasizing that future and current relationships must be fulsome and profitable at higher hurdle rates, recognizing the increased cost to carry assets on the balance sheet.

Historically, Wachovia has been viewed as an industry leader in asset quality. This emphasis has been underlined through the cultural embedding of an economic capital performance management system since 2001. This corporate risk/return focus has underpinned the strategy of opportunistically growing the balance sheet with lower risk assets. The operational expression of this strategy is seen in the cultivation of volume businesses that retain fewer risky assets on the balance sheet. However, this focus on retaining lower risk assets shifted in 2006 as Wachovia acquired Westcorp and its subsidiary WFS Financial. This acquisition significantly extended the
corporation’s presence within the auto lending and subprime markets. The acquisition also provided Wachovia with its first 19 branches in southern California. Additionally, in the first quarter of 2006, Wachovia reentered the credit card business as a direct issuer following the merger of MBNA with Bank of America. Credit card consumer loan balances have now grown to $2.2 billion as of 1Q08.

The retail risk shift continued in October 2006 with the acquisition of GoldenWest. The California-based thrift was the second largest savings bank in the nation and the only AA rated thrift institution at the time. The thrift’s 290 branches consolidated Wachovia’s geographically “U-Shaped” banking franchise, enabling it to pursue deposit and lending growth not only along the East coast, but also West through Texas to the fast growing urban centers of California. While GoldenWest was also a monoline, niche player in option-ARM products, its underwriting processes were respected and the collateralized nature of the product offset most credit quality concerns. Wachovia’s consumer loan balances jumped 96% during the fourth quarter of 2006, establishing the new 60/40 consumer to commercial split in loan balances. This purchase is now universally criticized as the consumer mortgage market has deteriorated significantly. Wachovia has recently announced that it is exiting the option ARM business.

Outside the major changes in the mortgage business, Wachovia has continued to invest in the CMG business and plans to stay in the investment banking business with a core product focus, moving away from complex products once markets normalize. The hiring of a CEO with an investment banking background indicates their commitment to CIB. Also, Wachovia announced in March 2007 its intention to move the headquarters of its retail broker operations to Missouri as it acquired St. Louis, MO based AG Edwards. The acquisition closed in fourth quarter 2007 and Wachovia Securities now has $1.2 trillion of client assets.

To a lesser extent, Wachovia’s geographic expansion has also included initiatives overseas, in pursuit of new business, funding diversification and cost restraint. The establishment of an Irish bank in 2007 was seen as a significant step towards the replication of mature domestic investment banking businesses in the European Union, but this European bank has become a booking entity as loan warehouses for CMBS production are not needed in today’s market. Also, issuing debt in the European markets is limited in today’s markets.

The near term prospects for the corporation are poor. The company has to manage weak earnings, declining capital levels, and the negative migration in asset quality while shrinking the balance sheet and simultaneously controlling expenses. This negative outlook is offset somewhat by the income stream of the core businesses which remain well diversified, with 43% of 2007 annual revenues derived from noninterest income. However, overhead ratios (excluding merger costs) have consistently increased over the past few quarters and legal reserves have increased with current and future enforcement actions and investor lawsuits.

Organizational Structures, Business Line Strategies & Significant Activities

(Please note, this analysis is built on the strategy of previous management before the company began experiencing financial troubles and as a result future changes are expected as the new CEO completes his assessment of the corporation’s businesses.)

Wachovia is structured into four main lines of business: the GBG or the General Bank, Wealth Management, Capital Management, and the Corporate and Investment Bank or CIB. The structures of which are described in this section. These four businesses are overseen by the parent financial holding company and centralized treasury, risk management, human resources, legal and information technology functions.
The **GBG Structure**

The General Bank serves over 15 million households and businesses in 21 states and Washington DC, through 4,900 financial centers, 5,200 automated teller machines, telephone banking and the Internet. GBG provides a broad range of products to individuals, corporations and government institutions and seeks to address the needs of three core markets: retail and small business with annual revenues up to $250 million; business banking customers with revenues between $3 million and $15 million, and commercial customers with revenues up to $250 million. Retail deposit and lending products include checking, savings and money market accounts, time deposits, home equity, residential mortgage, student loans, credit cards and personal loans; and investment products include mutual funds, IRAs and annuities. Middle-market customers receive commercial deposit and lending solutions, as well as access to asset management, global treasury management, and capital markets products and services through partnerships with Capital Management, Wealth Management, and CIB.

The figure below shows GBG’s business line revenues and an array of its operational segments.

The largest bank franchise in the Southeast, GBG projects a dominant presence along the East coast and is ranked third nationwide on the basis of deposit share, as of March 31, 2008.

The merger with GoldenWest Financial in October 2006 incorporated the nation’s second largest savings bank into the GBG structure. The thrift’s 290 branches (marked in red on the figure shown right) gave Wachovia expanded coverage into Arizona, Colorado, Kansas, Nevada and Illinois, and bolstered its presence in California, Florida, New Jersey, New York and Texas. The acquisition added $76 billion to average core deposits and $126 billion to average loans of GBG in the last quarter of 2006.

The executive reporting structure within GBG operates over three geographic regions: Western, Central and Eastern regions. The Eastern region has group retail banking executives over the subdivisions of the Northeast (Atlantic, Mid-Atlantic, Carolinas and Virginia) and Southeast (Georgia, Mid-South and Florida).
GBG additionally absorbed the March 2006 WestCorp and WFS Financial acquisition, which added $528 million to average deposits over the first quarter 2006 within the Retail and Small Business sub-segment, and $299 million average deposits plus $13 billion of loans within the Commercial sub-segment.

For the retail consumer, GBG seeks to provide products for all life stages, including savings, mortgages and retirement products. The retail sales management processes focus on customer needs assessment surrounding day-to-day money management, major purchase planning, financial future planning and unexpected event planning. The implementation of the business model stresses retail customer satisfaction and loyalty. Wachovia has been voted number one in customer satisfaction relative to banking peers for six years straight. The lead middle-market lender within its footprint and a top ten nationwide mortgage lender, GBG’s strategy is driven by the diversity of its product offerings and markets. GBG additionally seeks to address the needs of business of all sizes, with business checking, treasury services, global trade services, loans, leases and capital market products.

GBG’s average core deposits for the first quarter of 2008 were $297.7 billion, with average loans of $311.5 billion. Retail & Small Business sub-segment loans averaged $226.7 billion and the Commercial sub-segment $54.8 billion. The group’s $17.7 billion annual revenue for 2007 was derived primarily from its retail and small business operation, which contributed $13.3 billion; in the form of $10.2 billion net interest income and $3.1 billion in fee and other income.

**Wealth Management Structure**

In managing client financial assets, the Wealth Management business line deals with wealth creation, wealth preservation and generational transfers. The division’s strategy is based around the use of dedicated relationship managers who coordinate with multiple financial advisors to meet client needs. The structure of the business line is shown below.

Wealth Management is the eighth largest US wealth manager based on private banking assets under management, including clients having in excess of $250,000 in investable assets with Wachovia Securities and Wealth Management. The division is also one of the oldest and largest personal trust providers in the US and a top ten commercial insurance brokerage firm. Through a separate practice called Calibre, it provides sophisticated investment and generational transfer solutions to ultra high net worth families. Wealth management additionally provides customized loans and capital solutions to meet the financial needs of its high-net-worth clients. Credit facilities and services are tailored to wealth clients and include commercial loans, revolving lines, installment loans, and mortgages. The division is a specialist in the provision of marine and aircraft financing. With 335 insurance brokers, Wachovia Insurance Services provides commercial property insurance brokerage, risk management services, employee benefits, life insurance and personal insurance across 19 states and Washington D.C.

In April 2007, Wealth Management, while continuing to operate as a separate business line, merged with GBG’s Private Advisory Group, which was renamed Private Banking. Clients having $250,000 to $5 million in investable assets are served by Private Banking. Clients having in excess of $5 million in investable assets (or having $10 million net worth) are served by Wealth Markets. The specialist division Calibre serves clients with $50 million or more in investable assets. Wealth Management operates with some 900 wealth management advisors. Acting as the client relationship manager, Wealth Management draws on the services of other business lines, including Capital Management’s asset management services, through client partnership.

Annual Wealth Management revenues for 2007 were $1.6 billion, of which 52% is derived from fees and other income. As of the first quarter 2008, revenues were consistent with fourth quarter 2007 results. As of March 31, 2008, loans and deposits averaged $22.4 billion and $17.4 billion, respectively and within the Capital Management business line, had $83.5 billion of the assets under management.

**Corporate and Investment Bank Structure**

CIB’s strategy is based on the linkage between a leading treasury services platform and the corporation’s capital-raising capabilities. Operating under the Wachovia Securities brand, Wachovia Capital Markets and its affiliates provide services to corporations with
annual revenues over $1.4 billion, financial institutions and institutional investors, and provide advisory, capital raising, structuring, research and execution services. The business line also provides portfolio management, fixed income, and equity sales and trading. CIB offers a full set of capital market products.

Over the past few years, the business line has been a market leader in structuring and underwriting fixed income investment products backed by pools of loans, such as CMBS, RMBS, as well as CDOs, which are typically backed by pools of bonds that include CMBS and RMBS. It was the No. 3 lead manager for U.S. collateralized debt obligations. Wachovia was also a participant in underwriting and syndicating leveraged commercial loans. However, in the second half of 2007, financial markets experienced significant deterioration, particularly the markets for subprime RMBS, ABS CDOs, and CMBS. Rising defaults and delinquencies in subprime residential mortgages as well as rating agencies' downgrades of a large number of subprime RMBS led to significant declines in the valuations of these types of securities and certain indices that serve as a reference point for determining the value of such securities. Since that time, Wachovia has diligently tried to reduce their exposure. The following table reflects the remaining exposure within CIB as of March 31, 2008.

<table>
<thead>
<tr>
<th>Subprime-related, CMBS and Leveraged Finance Distribution Exposure, Net</th>
<th>3/31/08 Exposure</th>
<th>3/31/08 Hedged With Various Instruments Exposure</th>
<th>3/31/08 Net Exposure</th>
<th>12/31/07 Net Exposure</th>
<th>3/31/08 vs 12/31/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS CDO-related exposures:</td>
<td>3/31/08 Gross Exposure</td>
<td>3/31/08 Net Exposure</td>
<td>12/31/07 Net Exposure</td>
<td>3/31/08 vs 12/31/07</td>
<td></td>
</tr>
<tr>
<td>Super senior ABD CDO exposures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High grade</td>
<td>2,403</td>
<td>(2,403)</td>
<td>0</td>
<td>0</td>
<td>-%</td>
</tr>
<tr>
<td>Mezzanine</td>
<td>2,038</td>
<td>(1,599)</td>
<td>439</td>
<td>613</td>
<td>(28)</td>
</tr>
<tr>
<td>CDO-squared</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Total super senior ABS CDO exposures</td>
<td>4,441</td>
<td>(4,002)</td>
<td>439</td>
<td>613</td>
<td>(28)</td>
</tr>
<tr>
<td>Other retained ABS CDO-related exposures (a)</td>
<td>67</td>
<td>0</td>
<td>67</td>
<td>208</td>
<td>(68)</td>
</tr>
<tr>
<td>Total ABS CDO-related exposures</td>
<td>4,508</td>
<td>(4,002)</td>
<td>506</td>
<td>821</td>
<td>(38)</td>
</tr>
<tr>
<td>Subprime RMBS exposures:</td>
<td>3/31/08 Gross Exposure</td>
<td>3/31/08 Net Exposure</td>
<td>12/31/07 Net Exposure</td>
<td>3/31/08 vs 12/31/07</td>
<td></td>
</tr>
<tr>
<td>AAA rated</td>
<td>1,684</td>
<td>0</td>
<td>1,684</td>
<td>1,948</td>
<td>(14)</td>
</tr>
<tr>
<td>Below AAA rated (net of hedges)</td>
<td>(365)</td>
<td>0</td>
<td>(365)</td>
<td>(253)</td>
<td>44</td>
</tr>
<tr>
<td>Total subprime RMBS exposures</td>
<td>1,319</td>
<td>0</td>
<td>1,319</td>
<td>1,695</td>
<td>(22)</td>
</tr>
<tr>
<td>Total subprime-related exposure</td>
<td>5,827</td>
<td>(4,002)</td>
<td>1,825</td>
<td>2,516</td>
<td>(27)</td>
</tr>
<tr>
<td>Commercial mortgage-related</td>
<td>3,793</td>
<td>(840)</td>
<td>2,953</td>
<td>7,564</td>
<td>(61)</td>
</tr>
<tr>
<td>Leveraged finance (net of applicable fees)</td>
<td>NA</td>
<td>NA</td>
<td>8,157</td>
<td>9,149</td>
<td>(11)</td>
</tr>
</tbody>
</table>

(a) At 3/31/08, $2.0 billion is hedged with highly rated monoline financial guarantors, $900 million with a AA-rated large European bank, $1.2 billion with a large AA-rated global multi-line insurer, both under margin agreements.

In late 2007, Wachovia elected to transfer certain assets that were originally intended for distribution to the loan portfolio based on their view that the market valuations provided attractive longer term investment returns. These assets were transferred at fair value and are no longer being marked. These transfers included $181 million of subprime-related assets and $1.6 billion of commercial mortgage-related assets. Further, in January 2008, an additional $2.5 billion of foreign commercial mortgage-related assets representing 54 positions were transferred.

CIB incorporates a top 3 treasury management provider, as well as the second largest U.S. asset-based lending lead arranger and provides global correspondent banking services. The figure below represents the main structural elements of CIB showing the revenue contributions of its sub-segments.
As can be seen from the above figure, of CIB’s $5.0 billion annual revenue, some $2.5 billion is generated by the Global Markets Investment Banking (GMIB) segment. GMIB revenue production is dominated by the Fixed Income division ($1.4 billion). Within Fixed Income, the Structured Products sub-segment, normally accounting for high revenue, had a difficult year due to market conditions. Structured Products incorporates commercial real estate and ABS finance, ABS conduits, large loans, structured asset finance and leasing. Global Rates capture derivatives marketing and institutional sales, commodity derivatives and global foreign exchange. CIB’s second largest revenue generator is the Global Capital Finance segment which generated $0.7 billion in revenue last year, through asset backed lending and leasing.

The Treasury Services division offers customers a suite of integrated payables and receivables solutions, including electronic check conversion, accounts receivable conversion, a full range of ACH services, image technology, a national wholesale and retail lockbox network and international treasury solutions.

During 2006, CIB expanded its real estate capital markets platform in Europe and commenced delivering commercial mortgage loan and REPO finance products in the UK and Germany. A securitization, structured finance and REPO warehouse business has been developed in London, with origination throughout Europe being driven from the Frankfurt and London offices. In 2007, Wachovia was granted permission to establish a foreign bank based in Dublin, Ireland. Wachovia Bank International will conduct passported activities within the European Union, primarily Structured Products’ Real Estate Capital Markets securitizations and commercial loan servicing.
In 2008, GMIB restructured its organizational chart as follows:

For the first quarter 2008, average loan balances within CIB increased to $101.0 billion and include the transfer of certain loans originally slated for disposition that were transferred into the loan portfolio at fair value. Lending commitments remained somewhat stable at $113.5 billion. Average core deposits increased to $33.6 billion.

**Capital Management Structure**

Capital Management Group (CMG) provides both proprietary and nonproprietary investment and retirement products, working with both retail and institutional clients. Wachovia Securities, whose retail brokerage operations fall within the Capital Management business line, currently operates through 3,300 offices in 49 states, Washington DC and Latin America. The other main business line within Capital Management is Evergreen Investments, a large and diversified asset management operation which, again, services both retail and institutional investors. The structure of Capital Management and the revenue contributions from its segments are shown below.

---

**External Reporting View:**

**Capital Management Revenue: $7.8 billion**

- Retail Brokerage Services Revenue: $6.6 billion
- Asset Management Revenue: $1.2 billion

**Internal View:**

- **Wachovia Securities:** Retail Brokerage
  - Retail Brokerage
  - Equity Trading
  - Retail Fixed Income
  - Securities Lending

- **Retirement & Investment Products Group**
  - Annuity Products
  - Defined Contribution
  - Reinsurance
  - Defined Benefit

- **Evergreen Investments:** Asset Management
  - Mutual Fund Sales & Service
  - Wealth Private Asset
  - Equity Management

**Channels:**

- **Independent Brokerage Group**
  - Wachovia Securities
  - Latin America Group
  - Correspondent Clearing Group

**Private Clients Group**

**Investment Services Group**
CMG’s Retail Brokerage operations currently constitute the second-largest full-service U.S. brokerage, with client assets as of March 2008 of $1.2 trillion. The acquisition of national independent brokerage firm A.G. Edwards expanded client assets, which have increased threefold over the past five years. The business line currently employs 14,600 registered representatives in 3,700 Wachovia brokerage offices and banking centers. The Retail Brokerage Services sub-segment, as shown above, includes the results of the Wachovia Securities brand retail activities, which are the combination of Wachovia’s and Prudential Financial’s retail brokerage operations. With the acquisition of A.G. Edwards, Wachovia Securities LLC is now headquartered in St. Louis, MO. The integration of the firm is scheduled to be complete by first quarter 2009. Wachovia Securities additionally operates in conjunction with two further broker dealers, Wachovia Securities Financial Network LLC and First Clearing LLC. As shown in the figure above, Retail Brokerage uses multiple channels including the traditional retail brokerage, Private Client Group; the Wachovia bank channel, Investment Services, and independent financial advisors and correspondent firms. Wachovia has strongly pursued the migration of its clients from transaction fee based accounts to managed accounts which generate recurring income streams. In 1Q08, 70% of revenue came from recurring sources.

The Asset Management sub-segment has $327 billion of assets under management of which 45% are in fixed income securities, 30% are equities, and 25% are money market. Asset Management is also a top twenty-five mutual fund manager with $113 billion of mutual fund assets under management. The majority of its products and services are marketed through Evergreen Investments, based in Boston, MA and Charlotte, NC. In 2006, the firm launched Wachovia Global Asset Management, the brand name under which Evergreen distributes institutional services to non-US markets. 2005 saw Evergreen additionally acquire majority interest in Metropolitan West Capital Management LLC, an intrinsic value asset management firm based in Newport Beach, CA. The former Metropolitan West Securities, now Wachovia Global Securities Lending, is a specialist securities lending and short term asset management firm. Also in 2006, Wachovia completed the acquisition of the defined contribution recordkeeping business of Ameriprise Financial Inc. of Minneapolis, adding significant scale to the Retirement Services segment and expanding its national reach. In February 2007, Wachovia acquired London based European Credit Management to expand Evergreen’s international distribution capability. A.G. Edwards was acquired to further provide asset management services. Its operations will be folded into the business segment.

Revenue and Risk Drivers

Wachovia’s total revenue for the year 2007 was $31.6 billion, being split between net interest income of $18.1 billion (57% of revenue) and noninterest income was $13.5 billion (43%). Net income for the year was $6.3 billion, or $3.26 per share. The following tables show the main revenue contributions from the business lines described in the previous section. The table also includes Wachovia’s assessment of the business lines’ relative risks in the form of economic capital allocations.

### Revenue and Earnings Contributions with Average Economic Capital Allocations:

<table>
<thead>
<tr>
<th>Business Line</th>
<th>Full-Year 2007 Revenue 2007 (Sbn)</th>
<th>%</th>
<th>Net Income 2007 (Sbn) %</th>
<th>Average Economic Capital Over Period (Sbn) %</th>
<th>RAROC %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Credit</td>
<td>Market</td>
</tr>
<tr>
<td>GBG Retail &amp; Small Biz.</td>
<td>13.3</td>
<td>42%</td>
<td>4.1</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>GBG Wholesale</td>
<td>4.4</td>
<td>14%</td>
<td>1.7</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>General Bank</td>
<td>17.7</td>
<td>56%</td>
<td>5.8</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>Wealth Management</td>
<td>1.5</td>
<td>5%</td>
<td>0.3</td>
<td>4%</td>
<td>0.4</td>
</tr>
<tr>
<td>CIB Investment Banking</td>
<td>1.7</td>
<td>5%</td>
<td>(0.5)</td>
<td>-7%</td>
<td></td>
</tr>
<tr>
<td>CIB Treasury &amp; Trade</td>
<td>1.0</td>
<td>3%</td>
<td>0.2</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>CIB Corporate Lending</td>
<td>2.3</td>
<td>7%</td>
<td>0.9</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>CIB</td>
<td>5.0</td>
<td>16%</td>
<td>0.6</td>
<td>9%</td>
<td>6.0</td>
</tr>
<tr>
<td>CMG, Retail Brokerage</td>
<td>6.6</td>
<td>21%</td>
<td>1.1</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>CMG Asset Management</td>
<td>1.2</td>
<td>4%</td>
<td>0.2</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Capital Management</td>
<td>7.8</td>
<td>25%</td>
<td>1.3</td>
<td>19%</td>
<td>0.2</td>
</tr>
<tr>
<td>Parent &amp; Risk Diversification</td>
<td>(0.5)</td>
<td>(2.0%)</td>
<td>(1.2)</td>
<td>-17%</td>
<td>0.6</td>
</tr>
<tr>
<td>Consolidated 2007</td>
<td>31.6</td>
<td>100%</td>
<td>6.8</td>
<td>100%</td>
<td>16.4</td>
</tr>
</tbody>
</table>
The chart to the right shows how the principle activities of the business lines, excluding the Parent, compared in terms of revenue generation. The relative importance of net interest and noninterest income within GBG is also shown.

As noted above, Wachovia’s corporate strategy is underpinned by the diversity of its sources of revenue from the various business lines. The General Banking Group derives 56% of consolidated revenues. Within GBG, Retail and Small Business activity contributes 42% of consolidated revenues. GBG’s Commercial activities generate a further 14% of revenues which are comparable to but slightly lower than the 21% derived from retail brokerage activity within Capital Management. CIB’s revenue has fallen significantly since second half 2007 due to the market disruption. The Corporate Lending division generates 7% of revenues, the most by any CIB business segment. The Wealth Management division contributes 4% of revenues.

Wachovia now obtains some 60% of gross revenues from loan interest. In a change from previous years, the primary driver of interest income for 2007 was the expanded consumer RE portfolio, generating 29% of gross revenues. Commercial, financial and agricultural loan interest contributed 13%. Interest on securities represented 11% of annual receipts, while balances increased by 6% since 2006. Deposit growth was assisted greatly by the GoldenWest and A.G. Edwards acquisitions, and to a lesser extent the “Way2Save” program. The loan to deposit ratio was unchanged during 2007 and ended the year at 106%. However, deposit balances trended down in the first quarter of 2008 resulting in a loan to deposit ratio of 110%. Wachovia’s long term debt has increased from a level of $138.6 billion at the end of 2006 to $175.7 billion as of 03/31/08 (27%). For 2008, Wachovia generally assumes a slowing U.S. economy overall and the possible benefits of a steeper yield curve and low short-term interest rates. However, Wachovia’s net interest margin contracted to 2.92% as of 1Q08, from 3.12% for 2006.

Currently, the greatest risk to profitability is credit costs. The addition of Westcorp and most notably GoldenWest, helped to drive up the provision charge for 2007 by 4.5 times over its 2006 level. The ratio of net charge-offs to average loans for the first quarter 2008 was running at 0.66% (compared to 0.15% a year previous), and the ratio of nonperforming assets to loans was 1.70% (compared to 0.40% one year ago).
Wachovia set out on a three year publicly declared initiative to drive down the rate of its expense growth. The intent was to slow expense growth by an amount of $600 million to $1.0 billion by the end of 2007. The metric used to monitor expense restraint is the cash overhead efficiency ratio which excludes merger-related and restructuring expenses, other intangible amortization, discontinued operations, and changes in accounting principles. The corporations target range for the end of 2007 was 51.5% to 53.5%. However, given the effects on profitability of the global market malaise, they were unable to attain this goal. Management has yet to revisit this initiative and disclose current goals.

Management has appropriately raised capital given the corporations deteriorating financial condition. As at 03/31/08, the tier 1 risk-based capital ratio, tier 1 leverage ratio and total risk-based capital ratios were 7.40%, 6.20% and 12.0% respectively. Including the April tier-one issuance of $8.05 billion, shareholder equity was $86.0 billion; total regulatory capital was $81.8 billion; tier 1 capital was $53.4 billion, and tangible common equity was $32.6 billion. This compares to the first quarter 2008 average economic capital required of $30.7 billion, as calculated by Wachovia’s internal economic capital model. As of 6-30-08 the tier 1 RBC ratio had increased to 8.05 due to the capital raising efforts, but this ratio continues to decline and management continues to take action to preserve capital. Liquidity requirements, driven by the 2006 acquisition activity and European expansion, have significantly raised long term debt levels in general, including subordinated issuances.

Corporate Governance

The Board of Directors, the members of which are listed below, is responsible for the oversight of the corporation's risk governance processes. Risk is managed through four main corporate groupings: the defined risk committee structures, an independent Risk Management function, an independent Internal Audit function, and within the operational business units.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Company Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert K. Steel</td>
<td>President &amp; CEO of Wachovia Corporation</td>
</tr>
<tr>
<td>Lanty L. Smith</td>
<td>Chairman of Wachovia Corporation, Chairman and CEO, Tippet Capital LLC, Raleigh, NC.</td>
</tr>
<tr>
<td>John D. Baker II</td>
<td>President &amp; CEO, Patriot Transportation Holding Inc., Jacksonville, FL.</td>
</tr>
<tr>
<td>Peter C. Browning</td>
<td>Director, Nucor Corporation, Charlotte, NC.</td>
</tr>
<tr>
<td>John T. Casteen III</td>
<td>President, University of Virginia, Charlottesville, VA.</td>
</tr>
<tr>
<td>Jerry Gitt</td>
<td>Securities Analyst (retired), Palm Desert, CA.</td>
</tr>
<tr>
<td>William H. Goodwin Jr.</td>
<td>Chairman and President, CCA Industries Inc. and Chairman, CEO, COO, Riverstone Group LLC, Richmond VA.</td>
</tr>
<tr>
<td>Maryellen C. Herringer</td>
<td>Attorney-at-Law, Piedmont, CA.</td>
</tr>
<tr>
<td>Robert A. Ingram</td>
<td>Vice Chairman Pharmaceuticals, GlaxoSmithKline plc Research Triangle Park, NC.</td>
</tr>
<tr>
<td>Donald M. James</td>
<td>Chairman &amp; CEO, Vulcan Materials Company, Birmingham, AL.</td>
</tr>
<tr>
<td>Mackey J. McDonald</td>
<td>Chairman &amp; CEO, VF Corporation, Greensboro, NC.</td>
</tr>
<tr>
<td>Joseph Neubauer</td>
<td>Chairman &amp; CEO, ARAMARK Holdings Corporation, Philadelphia, PA.</td>
</tr>
<tr>
<td>Ernest S. Rady</td>
<td>President, American Assets, Inc. and Chairman, Insurance Company of the West, Irvine CA.</td>
</tr>
<tr>
<td>Van L. Richey</td>
<td>President &amp; CEO, American Cast Iron Pipe Company, Birmingham, AL.</td>
</tr>
<tr>
<td>Ruth G. Shaw</td>
<td>Executive Advisor to the Chairman &amp; CEO, Duke Energy Corporation, Charlotte, NC.</td>
</tr>
<tr>
<td>Dona Davis Young</td>
<td>Chairman, President &amp; CEO, The Phoenix Companies, Inc., Hartford, CT.</td>
</tr>
</tbody>
</table>
(ii) Committee Structures

On an annual basis the board approves a risk policy which delegates risk oversight to the Risk Committee of the Board. This committee, in turn, delegates to the Senior Risk Committee of Management, which is the governing body for five managing committees: ALCO, Market Risk, Credit Risk, Operational Risk and Conflict Review.

The Risk Committee of the Board consists of a minimum of three non-management directors and members of the committee are appointed by the board. The committee meets in conjunction with regularly scheduled board meetings on a bi-monthly basis. The committee receives information regarding the corporation’s policies, procedures and practices relating to all categories of risk. The charter of the Risk Committee of the Board stipulates the information to be received from the Senior Risk Committee, the ALCO, and the Market, Credit and Operational Risk Committees. The Audit Committee of the Board is responsible for ensuring that all areas of the corporation have satisfactory internal controls that are operating effectively.

The Audit Committee is comprised of five independent directors, all of which are considered “financially literate”. The current Chairman, Mr. Joseph Neubauer, has been on the committee for several years and is designated as the “financial expert.” The Audit Committee’s responsibilities are documented via a formal charter. The primary responsibility of the committee is to ensure the integrity of the firm’s financial statements and internal control environment as well as oversight of the Internal Audit Department. Although some issues were noted in the past, reporting and MIS sent to the committee is considered satisfactory. However, improvement continues with expanded narratives on internal industry risks, business line performance and exposures, and significant accounting issues. The committee routinely interfaces with the Risk Committee of the Board with several joint meetings per year being held.

Under the corporation’s risk governance policy, the Operating Committee of Executive Management is responsible for managing risks relating to business strategy, reputation risk and the general business activities of the corporation. The Operating Committee is composed of the most senior management of the institution, including all executives that report to the CEO. The committee meets on a monthly basis and receives MIS covering the financial results and metrics for the prior month. Projected income statements for the remaining quarters of the current year, full-year projected results, performance metrics and economic capital allocations are provided for every business line.
The members of the Operating Committee are listed below:

| Robert K. Steel, President & CEO                  | Tom Wurtz, CFO & Head of Finance |
| Ben Jenkins, Vice Chairman, President of the General Bank | David Carroll, President of Capital Management |
| Steve Cummings, Head of CIB                       | Stan Kelly, President of Wealth Management |
| Daniel J. Ludeman, President Wachovia Securities LLC | Benjamin F. Williams, Head of Global Capital Markets |
| Reginald E. Davis, Eastern Banking Group Executive | Cecelia S. Sutton, Head of Retail Segment, General Bank |
| Don Truslow, Chief Risk Officer, Head of Risk (Note: On July 31. he announced intent to resign upon the hiring of his replacement) | Mark Treanor, General Counsel and Secretary |
| Gerald A. Enos, Head of Operations, Technology and eCommerce | Shannon McFayden, Head of HR & Corp. Relations |

- The Senior Risk Committee is appointed by the Risk Committee of the Board. It is responsible for monitoring the direction of all types of risk relative to the corporation’s business strategy. It also reviews emerging risks and monitors the steps taken to mitigate such risks. The committee meets monthly and consists of members of the Operating Committee. A key function of the committee is to consolidate perspectives across risk types and functional areas.

- The Asset and Liability Committee is tasked with the oversight of liquidity risk and interest rate sensitivity risk. The Chief Financial Officer reports directly to the CEO and is accountable for the management of these risks.

- The Credit Risk, Market Risk and Operational Risk Committees are appointed by the Senior Risk Committee and are responsible for the policies and limits associated with their respective risks.

- The Conflict Review Committee provides oversight of conflicts of interest that may arise across the institution. The committee provides a mechanism to address conflicts and a forum for resolution of cross business line conflicts.

(ii) The Risk Management Function

In conjunction with the formal committee reporting requirements, Wachovia additionally operates an independent Risk Management function with oversight of the corporation’s risk appetite and approved risk limits. This corporate function monitors risk across the corporation and works with the business lines to establish and monitor the standards for risk taking. The Chief Risk Officer reports to the CEO and is responsible for the independent evaluation of credit, market and operational risk and for risk governance processes.

(iii) Audit

Wachovia’s independent Internal Audit function reviews the entire corporation by dividing it into 360 identifiable audit entities, which are individually risk-assessed and prioritized. Some 48 high risk entities are audited every year, 208 medium risk entities are audited every two years, and 104 lower risk entities are reviewed once every three years. By business line, the largest number of the 48 high risk entities resides in CMG (13) and IT (9). Wachovia operates some 320 internal audit staff, having grown the function aggressively since 2003. Turnover remains manageable; however, changes at the Director level in the IT and Finance audit teams will present challenges in the short-term. Budgeted plan hours for 2008 total 495,000, but changes to the plan have been noted due to fluctuating market conditions. The corporation’s External Audit function is conducted by KPMG, who meet with management on a regular basis to discuss current accounting and internal control issues.
Legal Entity Structure

As of March 31, 2008, the parent Wachovia Corp. held assets of $136.8 billion of which 82% were investments in subsidiaries and associated companies. Equity capital was $76.9 billion and the debt to equity leverage ratio was 62.5%. The double leverage ratio of equity investments in subsidiaries to equity stood at 127%. The schematic at the end of this section shows a representation of the main subsidiaries of the corporation.

(i) Depository Institution Subsidiaries

As of March 31, 2008, Wachovia’s consolidated assets stood at $808.6 billion. The assets of the national bank franchise, Wachovia Bank N.A. (WBNA) were $665.8 billion, equivalent to some 82% of consolidated assets. The table below shows the dominance of the bank on the corporation’s interest-related earnings during 2007. The CAMELS rating of WBNA is 2 / 222212; however, the OCC is in the process of shifting to a composite “3” with a “3” management rating.

<table>
<thead>
<tr>
<th></th>
<th>Wachovia 2007</th>
<th>WBNA 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income</td>
<td>18.3</td>
<td>15.1</td>
</tr>
<tr>
<td>Noninterest Income</td>
<td>13.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Noninterest Expense</td>
<td>19.8</td>
<td>15.3</td>
</tr>
<tr>
<td>Provision (SB)</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Net Income (SB)</td>
<td>6.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Tier I Leverage Ratio</td>
<td>7.35%</td>
<td>6.71%</td>
</tr>
<tr>
<td>Equity Capital (SB)</td>
<td>76.9</td>
<td>72.4</td>
</tr>
<tr>
<td>Loans (SB)</td>
<td>462.0</td>
<td>409.3</td>
</tr>
<tr>
<td>ALLL (SB)</td>
<td>4.7</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Primary operating subsidiaries under WBNA include:

- Evergreen Investment Company, Inc., the Boston, MA, based investment management service. Evergreen is the asset management vehicle for the Wachovia’s Capital Management and Wealth Management business lines described above.

- Wachovia International Banking Corp., an Edge corporation with assets of $3.2 billion, acts as the parent company for overseas activities conducted through the following main subsidiaries:
  - Wachovia Securities International Ltd (WSIL), London, houses Wachovia’s main European capital markets activities. WSIL serves two main functions: to market CIB investment products in the European arena and to conduct specific trading and distribution activities. During 2007, WSIL generated net income of $2.4 million. Net income was impacted significantly by the market disruption. As of 12/31/07, the company held assets of $1.9 billion and equity capital of $287 million. WSIL is authorized and regulated by the Financial Services Authority in the UK and utilizes the Wachovia Securities trade name.

  - Wachovia Capital Finance Corporation (Canada), formerly Congress Financial of Canada, conducts asset-based lending in Canada. As of 12/31/07, Congress Financial Corp. Canada had assets of $1.2 billion and earns net income of $12.8 million.

- The Agreement corp., Cardinal International Leasing LLC, with assets as of 12/31/07 of $6.0 billion, holds the legacy First Union international banking operations. Cardinal earned $45.9 million in 2007. Cardinal International Leasing houses leveraged lease balances and was significantly impacted by the FAS 13-2 change in accounting standards. On 01/01/07, its equity capital was reduced by $928 million to $359 million. It managed to increase to $409 by year-end 2007.

- WBNA also owns the smaller Agreement corporations Monument Street International Funding I & II, of Roseville, CA, each with assets of $12 million and which own First International Advisors in London.

- Wachovia Card Services NA is the new 2007 credit card bank subsidiary of WBNA with assets of $2.1 billion.

In addition to WBNA, Wachovia additionally owns Wachovia Bank of Delaware, N.A., a $4.8 billion commercial bank based in Wilmington, DE, and Delaware Trust Company N.A., with assets of $404 million.
In October 2006, Wachovia acquired GoldenWest, ($125 billion in assets at the time) which is the parent of two thrifts:

- Wachovia Mortgage FSB, formerly World Savings Bank FSB, Oakland CA, has assets as of 03/31/08 of $67.9 billion of which $56.4 billion are loans secured by first liens on 1-4 family dwellings. During Q08, Wachovia Mortgage Corporation, a wholly owned subsidiary, transitioned their operations into Wachovia Mortgage, FSB in order to align mortgage functions within Wachovia Corporation. This included their origination and servicing operations as well as the associated assets.

- During 4Q07, the World Savings Bank, FSB, Houston, TX charter changed its name to Wachovia Bank FSB. The original World Savings Bank, FSB TX charter will be maintained and continue to operate as Wachovia Bank, FSB. As of 03/31/08 assets were $24.6 billion, of which $15.4 was held as cash, deposits or investment securities.

- GoldenWest Financial Corp. additionally owns the inactive broker/dealer Atlas Securities LLC.

(ii) Nonbank Subsidiaries

In addition to these banks and their subsidiaries, Wachovia Corp. owns significant nonbank subsidiaries as described below:

- Everen Capital Corporation (assets as of $6.3 billion) is the holding company for substantial nonbank activity conducted under the broadly used Wachovia Securities brand, primarily through Wachovia Securities LLC and Wachovia Capital Markets LLC. Wachovia Securities is the trade name for both the corporate and investment banking businesses of Wachovia (including Wachovia Capital Markets LLC and also the Edge Corp. subsidiary WSIL, described above) and also the retail brokerage businesses of Wachovia Securities LLC, Wachovia Securities Financial Networks LLC and First Clearing LLC.

- Wachovia Securities LLC (WS) is registered as a broker-dealer with the Securities Exchange Commission and is a wholly owned subsidiary of Wachovia Securities Financial Holdings LLC (WSFH), which, in turn, is a majority owned consolidated subsidiary of Wachovia Corp. WSFH (with assets of $2.6 billion) serves as a holding company for the retail brokerage and clearing businesses contributed by Wachovia and Prudential Financial, Inc. and is based in Richmond, VA. As of 12/31/07, WS, including A.G. Edwards, held assets of $10.7 billion, of which $1.0 billion was held as securities owned and $0.6 billion were securities purchased under agreement to resell.

- WSFH’s principal operating subsidiaries, other than WS, are First Clearing LLC and the broker network Wachovia Securities Financial Network, LLC. WS clears its brokerage transactions through First Clearing LLC.

- Wachovia Capital Markets LLC (WCM) is the corporate and investment banking arm of the Wachovia Securities brand and is based in Charlotte, NC. At 12/31/07, Wachovia Capital Markets had assets of $21.7 billion, of which $11.8 billion are owned securities and $4.6 billion were securities purchased under agreement to resell. WCM is a registered broker dealer and possesses expertise particularly in the retail, defense, aerospace, utilities, financial services, healthcare, media and technology industries. As a vehicle for CIB activity, WCM provides advisory services, private capital, corporate lending and leasing, underwriting and trading services.

- Other CIB vehicles for investment banking activity include: Wachovia Capital Investments Inc., the home to legacy First Union investment banking operations; Wachovia Investors Inc. which is used to fund Wachovia’s originated and acquired investments in funds and private equity, and developer Wachovia Development Corp.

- Insurance operations are conducted through the agency Wachovia Insurance Services, which now houses the activities acquired from Palmer and Cay.

Union Hamilton Reinsurance houses Wachovia’s reinsurance operations in Bermuda with assets of $3.7 billion. Additionally, Wachovia owns reinsurer BluePoint Re, with assets of $474 million; also in Bermuda. Between 3Q07 and 1Q08, Wachovia has had write-downs on BluePoint totaling $300 million; its entire investment. Further, operations have since discontinued.
### Significant Nonbank Entities

<table>
<thead>
<tr>
<th>Significant Nonbank Subsidiary</th>
<th>Debt securities</th>
<th>EFN/AML exposures</th>
<th>Credit underwriting</th>
<th>Significant equity investment in affiliated entities</th>
<th>Significant mortgage servicing</th>
<th>Significant off balance sheet funding</th>
<th>Total debt significant (as of 06/30/2007)</th>
<th>Significant operating revenue significant (as of 06/30/2007)</th>
<th>Other significant activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyche Securities LLC</td>
<td>No</td>
<td>Yes</td>
<td>Yes - mortgage funded</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>4.94% of T1 Cap</td>
<td>4.02% of T1 Rev</td>
<td></td>
</tr>
<tr>
<td>Wyche Insurance Services</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Wyche Mortgage, FDB (CA)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>21.2% of T1 Cap</td>
<td>1.77% of T1 Rev</td>
</tr>
<tr>
<td>Wyche Bank, FDB (TX)</td>
<td>see above</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>26.8% of T1 Cap</td>
<td>0.21% of T1 Rev</td>
</tr>
</tbody>
</table>

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The graphic below shows the main subsidiaries within the Wachovia group.
Regulatory Scheme

The FRB has lead responsibility for the regulatory oversight of the Wachovia Corporation financial holding company, the Edge and Agreement corporations and their international subsidiaries, and the non-bank subsidiaries of the holding company, excluding those which are functionally regulated by other federal and state supervisory agencies. In its role as the umbrella supervisor, the FRB also monitors these entities on an ongoing basis. The table below lists the supervisory coverage of the corporation and its significant subsidiaries.

<table>
<thead>
<tr>
<th>Legal Entity</th>
<th>Institution Type</th>
<th>Agency</th>
<th>FRB Filing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wachovia Corporation</td>
<td>Financial Holding Company</td>
<td>FRB</td>
<td>FRY9/Y9LP</td>
</tr>
<tr>
<td>Wachovia Bank NA</td>
<td>National Bank</td>
<td>OCC</td>
<td>Call</td>
</tr>
<tr>
<td>Wachovia International Banking Corp</td>
<td>Investment Edge Corporation</td>
<td>FRB</td>
<td>FR2886b</td>
</tr>
<tr>
<td>Wachovia Securities International Ltd</td>
<td>Foreign Subsidiary</td>
<td>FRB (FSA in UK)</td>
<td>FR2314</td>
</tr>
<tr>
<td>Capital Finance Canada</td>
<td>Foreign Subsidiary</td>
<td>FRB</td>
<td>FR2314</td>
</tr>
<tr>
<td>Cardinal Leasing International</td>
<td>Agreement Corporation</td>
<td>FRB</td>
<td>FR2886b</td>
</tr>
<tr>
<td>Monument Street Funding I &amp; II</td>
<td>Agreement Corporations</td>
<td>FRB</td>
<td>FR2886b</td>
</tr>
<tr>
<td>Evergreen Investment Management Corp.</td>
<td>Investment Advisor</td>
<td>SEC</td>
<td>-</td>
</tr>
<tr>
<td>Wachovia Bank of Delaware NA</td>
<td>National Bank</td>
<td>OCC</td>
<td>Call</td>
</tr>
<tr>
<td>Delaware Trust Company, NA</td>
<td>National Bank</td>
<td>OCC</td>
<td>Call</td>
</tr>
<tr>
<td>Wachovia Card Services, NA</td>
<td>National Bank</td>
<td>OCC</td>
<td>Call</td>
</tr>
<tr>
<td>Everen Capital Corporation</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Capital Markets</td>
<td>Securities Broker Dealer</td>
<td>SEC</td>
<td>-</td>
</tr>
<tr>
<td>Wachovia Securities Holdings</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Securities Financial Holdings</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Securities LLC</td>
<td>Securities Broker Dealer</td>
<td>SEC</td>
<td>-</td>
</tr>
<tr>
<td>First Clearing LLC</td>
<td>Securities Broker Dealer</td>
<td>SEC</td>
<td>-</td>
</tr>
<tr>
<td>Wachovia Securities Financial Network</td>
<td>Securities Broker Dealer</td>
<td>SEC</td>
<td>-</td>
</tr>
<tr>
<td>Wachovia Capital Investments</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Investors</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Development Corporation</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Blueprint Reinsurance</td>
<td>Foreign Subsidiary</td>
<td>FRB</td>
<td>FR2314</td>
</tr>
<tr>
<td>Union Hamilton Reinsurance</td>
<td>Foreign Subsidiary</td>
<td>FRB</td>
<td>FR2314</td>
</tr>
<tr>
<td>Wachovia Insurance Services</td>
<td>Insurance Agency</td>
<td>States</td>
<td>-</td>
</tr>
<tr>
<td>Golden West Financial</td>
<td>Non-Bank Subsidiary</td>
<td>FRB</td>
<td>FRY11</td>
</tr>
<tr>
<td>Wachovia Mortgage FSB, CA</td>
<td>Thrift</td>
<td>OTS</td>
<td>-</td>
</tr>
<tr>
<td>Wachovia Bank FSB, TX</td>
<td>Thrift</td>
<td>OTS</td>
<td>-</td>
</tr>
</tbody>
</table>

As described in the previous section, the majority of Wachovia's assets reside in the national bank franchise, particularly those managed under the auspices of the GBG and CIB business lines. The Office of the Comptroller of the Currency (OCC) retains a resident team onsite at Wachovia to exercise authority under the national banking charter. The OCC staff is comprised of 44 examiners under 5 subject teams (Credit, Operations, Finance & Markets, Asset Management, and IT).

In addition to the FRB and OCC, the FDIC has a resident program with one individual assigned to Wachovia. Activities include preparing analyses on financial performance, attending meetings with the FRB and OCC, and participating in examination activity being conducted by the FRB and OCC.
The FRB monitors and conducts mandated annual reviews on the Edge and Agreement Corps. and their subsidiaries, which reside under the lead national bank. The most significant risks associated with Edge corporation activity lie with CIB's operations through WSIL, which is additionally regulated by the UK's Financial Services Authority (FSA). Other foreign regulatory bodies conduct visitations at other Wachovia business offices in Asia, Latin America, and Europe. To date, the resident Federal Reserve team has not interacted with other Foreign Regulators except with the FSA in the UK.

The FRB additionally conducts an annual risk assessment for non-bank subsidiaries. The ongoing monitoring and targeted examinations associated with the CIB business line include the operations of investment banking entities and the wholesale broker dealer. Similarly, FRB conducts ongoing monitoring of the retail broker dealer activities of Wachovia Securities LLC and its affiliates within the Capital Management and Wealth Management business lines.

The Securities and Exchange Commission (SEC) is the functional regulator for Wachovia Securities broker dealer operations and is responsible for supervising Wachovia’s compliance with federal securities laws and regulations. In addition, the National Association of Securities Dealers (NASD) retains an interest in Wachovia's actions related to compliance with broker dealer guidelines and regulations.

With the acquisition of GoldenWest in October 2006, regulatory oversight now also includes the Office of Thrift Supervision (OTS) with whom which the resident staff has established ongoing communication.

Wachovia's insurance activities also introduce the regulatory parameters of several state insurance commissions, which retain primary responsibility for interstate insurance sales and underwriting. Most of Wachovia's insurance businesses are agency-based, providing very little underwriting activity. As a result, and given the state commissions' limited resources, regulatory influence has been fairly limited. FRB resident examiners work closely with state agencies to ensure appropriate monitoring of risk management and sales programs.

Appendix: Key Financial Markets (as of 3/31/08)

<table>
<thead>
<tr>
<th>As of March 31, 2008</th>
<th>TOTAL ASSETS</th>
<th>IMPORTANT TO CLEARED AND SETTLEMENT</th>
<th>MAJOR CAPITAL MARKETS PLAYER</th>
<th>MAJOR PLAYER IN SECURITIZATION MARKETS</th>
<th>MAJOR PROVIDER OF FINANCIAL SERVICES TO INDIVIDUALS</th>
<th>MAJOR PLAYER IN DERIVATIVES OR LARGE SCALE TRADER</th>
<th>IMPORTANT PARTICIPANT IN INTER-FINANCIAL MARKETS</th>
<th>NUMBER OF CRITERIA MET</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 CITYGROUP INC</td>
<td>2,199,848</td>
<td>FT, FX, CP, Govt.</td>
<td>IB, debt, equity</td>
<td>mort, cards, ABCP</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>6</td>
</tr>
<tr>
<td>2 BANK OF AMERICA CORP</td>
<td>1,761,679</td>
<td>FT, FX, Govt.</td>
<td>IB, debt</td>
<td>mort, cards, ABCP</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>6</td>
</tr>
<tr>
<td>3 JPMORGAN CHASE &amp; CO</td>
<td>1,642,982</td>
<td>Govt., FT, FX, CP,</td>
<td>IB, debt, equity</td>
<td>mort, cards, ABCP</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>mort, cards, muni, mort, mort, mort, mort</td>
<td>6</td>
</tr>
<tr>
<td>4 HBC HOLDINGS PLC</td>
<td>455,011</td>
<td>Govt., IB</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>5 DEUTSCHE BANK AG</td>
<td>865,206</td>
<td>FT, CP, Govt.</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>6 WACHOVIA CORPORATION</td>
<td>804,675</td>
<td>Govt., IB</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>7 WELLS FARGO &amp; COMPANY</td>
<td>565,271</td>
<td>Govt., IB</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>8 STATE STREET CORPORATION</td>
<td>154,079</td>
<td>Govt., ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>9 BARCLAYS PLC</td>
<td>514,584</td>
<td>FX</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>10 CREDIT SUISSE GROUP</td>
<td>397,496</td>
<td>Govt., IB</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>11 UBS AG</td>
<td>623,268</td>
<td>FX, CP, Govt.</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>12 BANK OF NEW YORK-MELLON</td>
<td>200,101</td>
<td>Govt., IB</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>13 DEPOSITORY TRUST COMPANY</td>
<td>3,236</td>
<td>Govt.</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
<tr>
<td>14 CUS BANK INTL</td>
<td>154</td>
<td>Case</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>ABCP</td>
<td>6</td>
</tr>
</tbody>
</table>

LCOs

1 ROYAL BANK OF SCOTLAND | 843,489     | IB                                  | ABCP                        | ABCP                                    | ABCP                                        | ABCP                                          | ABCP                                          | 6                   |

1 ROYAL BANK OF SCOTLAND | 184,226     | IB                                  | ABCP                        | ABCP                                    | ABCP                                        | ABCP                                          | ABCP                                          | 6                   |

U.S. BANKCORP 241,781

U.S. BANKCORP 241,781

U.S. TRUST BANKS, INC 178,987

U.S. CITY CORPORATION 155,047

CAPITAL ONE FINANCIAL CORP 150,609

ROYAL BANK OF CANADA 78,999

PNC 140,026
II. Risk Assessment Summary

Consolidated Executive Summary

Inherent Risk by Risk Type

<table>
<thead>
<tr>
<th>Consolidated Inherent Risk Ratings</th>
<th>Credit Risk</th>
<th>Market Risk</th>
<th>Liquidity Risk</th>
<th>Operational Risk</th>
<th>Legal &amp; Compliance Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 2007: Overall Risk Type Rating   | Moderate    | Considerable| Considerable   | Considerable     | Considerable           | Considerable           | Considerable           | Considerable           |

| 2006: Overall Risk Type Rating   | Moderate    | Considerable| Considerable   | Considerable     | Considerable           | Considerable           |

Overall Summary Assessment of Inherent Risk

The overall inherent risk profile of Wachovia is high driven by the elevated credit risk. The GoldenWest option ARM book, which is heavily dependent on real estate values especially in California, is the main contributor to the rating. Also, Wachovia has a significant footprint in the Southeast including the distressed markets in Florida and Georgia and contagion is likely to spread to other portfolios in this region. Required economic capital has increased, especially for credit risk. The weaknesses with credit quality and its negative effects on earnings has influenced the inherent liquidity risk, which has increased to considerable due to the high probability of a credit rating downgrade and the carry-on effects to market access. Our view of the compliance culture of the company has changed with the legal issues the company is facing and the inherent compliance risk rating has been increased to considerable. The operational risk has declined with the completion of certain remediation projects, but project execution risk results in a considerable rating. Despite the reduction in new trading business, VaR levels remain elevated and the market risk rating remains at moderate.

**Inherent Credit Risk**

Product and geographic concentration coupled with the market disruption, which has virtually halted risk distribution capability, caused a change in Wachovia’s inherent credit risk rating from moderate to high. Recent acquisitions not only changed the retail/wholesale mix of Wachovia’s portfolio, but gave rise to much of the concentration that has increased inherent risk. Wachovia’s loan portfolio is now 56% retail and this portfolio is dominated by option ARM mortgages. Adding to the inherent risk of the product, 60% of the option ARM loans are domiciled in California. Wachovia credit card exposure is minimal and has had little effect on overall inherent risk, but its 2006 acquisition of Westcorp, an auto lender, increased inherent risk due to its subprime portfolio characteristics. With the new products introduced to Wachovia with recent acquisitions, loss predictability has become more difficult as FICO scores have declined and LGD’s have become more volatile with collateral value declines.
The following information provides the shift in FICO scores in the mortgage book which contributes to the shift in rating:

Mortgage Portfolio FICO Distribution (as of 3/31/2008)

<table>
<thead>
<tr>
<th>All Wachovia (including Option)</th>
<th>Option ARMS only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original FICO</td>
<td>Current FICO</td>
</tr>
<tr>
<td>Unknown</td>
<td>8.26%</td>
</tr>
<tr>
<td>Below 620</td>
<td>11.09%</td>
</tr>
<tr>
<td>620-659</td>
<td>13.89%</td>
</tr>
<tr>
<td>660-699</td>
<td>18.32%</td>
</tr>
<tr>
<td>700-739</td>
<td>19.07%</td>
</tr>
<tr>
<td>740 and above</td>
<td>29.38%</td>
</tr>
</tbody>
</table>

The graph below provides shows the increase in economic capital required for credit risk:

Capital required for credit risk now represents 69% (was 64% at year-end 2006) of total economic capital. Growth is due to credit risk associated with the Westcorp and GoldenWest loan portfolios.

On the commercial side, an elevated level of commercial real estate exposure relative to LFI peers contributes substantially to inherent risk. In addition, the closing of the CMBS markets has minimized Wachovia’s ability to move risk off the balance sheet, a key risk mitigant previously utilized by the company. Compounding the commercial risk, 26% of Wachovia’s CRE exposure is concentrated in the Florida market. While criticized assets and charge-offs for CRE thus far have been pronounced only in the residential-related asset class, income property asset classes are beginning to see some weakness.

**Inherent Market (Trading Book)**

Trading book market risk is moderate. While market events over the past year have led to significant losses from trading activities, Wachovia’s performance relative to peer is positive. In spite of reliance on structured products for trading revenues, disruption-related losses of $4.9 billion through 2Q08 ($470 million in Q2) are significantly lower than other firms. The level of risk as measured by VaR and non-VaR sensitivities is below peer as well. The measure did grow from $30 million to over $50 million, but remains low relative to capital and the size of the institution. The institution benefited from successfully executing its originate to distribute model, holding less than peer of these suddenly illiquid products once markets seized. While some warehouses were stuck, much of the retained risk that has contributed to recent losses was due to operational error as opposed to business strategy. Key risk positions, most notably commercial real estate trading, are being actively reduced leaving a less volatile, less complex portfolio. Going forward, it is unlikely Wachovia will venture heavily into businesses that require a high degree of customization, previously mentioned as central to the investment banking philosophy. Senior management now expresses disdain for such esoteric products. Even as traditional markets open back up, management has indicated a cautious and measured reentry into these activities.
Trading activities are conducted across several divisions and products, the most prominent historically being Structured Products, Global Rates, Credit Products, and Equity Products. Recent market events and managerial changes have led to a reorganization and refocus of businesses. Structured products, struggling throughout the industry, have been divided into separate lines of business to ensure proper monitoring of these legacy positions. With the recent management changes, it is difficult to forecast how trading activities will change. Management has been advised to reduce balance sheet and capital usage by roughly 10% across the Corporate and Investment Bank. There is very little new business being conducted outside of the more liquid products, such as rates and equities. Much of the current revenue is generated through carry of legacy positions. Based on recent management discussions, equities and commodities are poised for growth, but this would be nominal in relation to all trading activities. International expansion has been significantly curbed. The products central to that expansion have no current market, though management still intends to expand proprietary equity trading in Europe.

**Inherent Market (Banking Book)**

Wachovia maintains a moderate inherent risk profile. Nevertheless, the inherent risk profile has increased due to merger activity and a challenging rate environment. Liability sensitivity increased over the past year and exceeded its internal 5% EPS limit 1Q08. Given its deteriorating financial condition, using their historical projected EPS measure exacerbated the real exposure. ALCO recently approved using net interest income as the baseline measure for IRR earnings sensitivity.

Management does not take significant views on the rate environment, preferring to maintain a relatively neutral risk posture. However, the addition of GoldenWest has added considerable mortgage exposure and presents hedging challenges due to the option-ARM product. Risk posed by the size and complexity of business activity is largely managed through strategic balance sheet decisions and the use of off-balance sheet derivatives.

**Inherent Liquidity Risk**

The inherent risk profile has increased to considerable despite Wachovia's ability to meet 2008 funding needs, maintain liquid assets above short term funding needs, and maintain a stable deposit base. Significant deterioration in Wachovia's financial condition is the driving force in downgrading Market Access to considerable. Management is appropriately concerned that a prolonged volatile market and poor performance by the company may impair the company's ability to issue term debt or raise capital. The company expects a credit rating downgrade after the 2Q08 loss announcement resulting in market stress with the Wachovia name. As a result, management has implemented stage II of its contingency funding plan and initiated Project ALVIN which includes actively assessing all potential liquidity needs and increasing liquidity reserves through year-end. Another initiative is underway to shrink the balance sheet and is considered the second phase of Project ALVIN.

Wholesale funding reliance has increased, although Wachovia's dependence is less than most large financial institutions due to their strong deposit base. Wachovia has been a traditional issuer of unsecured corporate debt and capital, typically preferring medium-to-longer term maturities. The market turmoil caused management to consider and utilize other funding methods such as increased usage of FHLB and TAF funding. FHLB became a significant funding source since the acquisition of GoldenWest and reliance is increasing. Wachovia's deposit base continues to be a source of strength. During 2007 total deposit growth kept pace with loan growth. In 2008, a slight downward trend had occurred until management implemented a large nationwide CD campaign to increase liquidity reserves. The rates being paid, however, are among the highest in the nation.

Although the degree of market access to issue capital and debt has been quite good throughout the turmoil, access leading into 2Q08 earning's announcement is believed to be more limited. Large fund providers are reassessing their Wachovia exposure. No significant pull-back is noted or suggested by the wholesale providers but most are waiting on the sidelines. Wachovia CDS spreads have widened significantly and are above other traditional financial institutions. This had not transferred to cash spreads paid for new issues through most of the turmoil, but going forward Wachovia will likely have to pay more for certain types of funding. The Corporation has been able to issue capital as well but erosion of their stock price since issuance, missteps by management, firing of their CEO will likely limit any significant capital rising in the short term.

One subcategory relating to off-balance sheet activity was also downgraded to considerable, although the overall category of Business Activities remains unchanged at moderate. During the market disruption, several funding needs arose that were not contemplated by management. These items were not captured on regularly produced MIS and were not addressed in the contingency funding plan. Such items included certain conduit assets, liquidity put agreements, BluePoint reinsurance subsidiary, and other non-bank
commitments. Examples where senior management decided to support obligations relating to reputation risks include various Evergreen money market investments and European Credit Management investments.

**Inherent Operational Risk**

While inherent operational risk remains considerable, the overall risk profile has lessoned to a degree due mainly to the completion of certain high-profile initiatives; however, challenges remain. The firm continues to experience heightened execution risk resulting from an expanding footprint, merger integration and data center proximity activities, technology refresh within CIB, and increasingly sophisticated information security threats from professional criminal hackers. Additionally, current market conditions have resulted in expense reduction initiatives, with potential detrimental impacts to projects and human capital being unknown. Exacerbating the execution risk has been the lack of a permanent CEO and market reaction to the firm’s performance, which has raised anxiety. Data center proximity risk remains a leading risk, with project delays encountered due to the addition of AG Edwards recovery requirements. On a positive note, management has substantially completed the long running information security risk remediation projects. However, the new infrastructure requires continuing maintenance, such and network equipment upgrades and server virtualization. Additionally, distributed server access control risk remediation remains a work in process.

**Inherent Legal and Compliance Risk**

Overall, inherent risk at Wachovia is considerable. This is a change from 2007 when it was rated as moderate. The change is primarily due to our assessment of the consumer and commercial businesses which we have rated as considerable up from moderate as well as a recalibration based on the updated ratings guidance. Although there has been little change in the profile of the consumer and commercial businesses, we are basing our assessment on the residual fair lending risk of the legacy GoldenWest loan portfolio. Our assessment of the corporate and investment banking businesses remains unchanged at considerable and is being driven by the DOJ’s municipal bid rigging investigation. This investigation has the potential for a significant legal settlement and damage to the company’s already tarnished reputation. Wealth and Investment Management’s rating has been increased to considerable but this is a recalibration given changes in guidance as the risk is still driven by their retail broker/dealer Wachovia Securities, LLC. A new inherent risk factor for 2008 correspondent banking is rated high as they have substantial international customers in Latin America, Middle East, Europe, and Asia exposing them to high BSA/AML risk.
## Risk Management and Controls

<table>
<thead>
<tr>
<th>Year</th>
<th>Subcomponent Ratings by Risk</th>
<th>Overall Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Subcomponent Ratings by Risk</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>2008</td>
<td>Subcomponent Ratings by Risk</td>
<td>Fair</td>
</tr>
</tbody>
</table>

### Overall Summary Assessment of Risk Management- Fair or “3”

The assessment of Wachovia’s overall risk management has been downgraded from “satisfactory” to “fair”. This rating is directed at “top of the house” board and senior management oversight as many business line ratings have not been adjusted until further examination work can be completed. This is the primary reason for the satisfactory rating for many of the subcomponent risk buckets. Our concerns with risk management are generally directed at the lack of adequate coverage, stature, and independence over all the risk taking activities of the firm. Also, the board and senior management have not always developed clearly defined risk tolerances for investing activities, limiting the effectiveness of risk management functions. During the market disruption, there were examples where the risk management processes functioned adequately both in the business lines and with the centralized corporate function. With trading book VaR limits, market risk management and the business lines effectively reduced exposures or obtained overlimit exceptions from the chief risk officer. Also, CIB took actions to limit risk and sold much of the super senior CDO positions in its active originate to distribute business model. However, the management of other business investment decisions was negatively affected by the lack of strong independent risk management functions. Traditionally, the firm has utilized a decentralized approach to managing business line risk which led to an environment with inconsistent identification and escalation. The market disruption and recent investigations revealed the need for improved risk management, especially over non-traditional investment decisions.

### Board and Senior Management Oversight – Fair

Board of directors and senior management oversight is considered fair. This rating reflects our concerns with the oversight of senior management provided by the board of directors, the adequacy of risk management coverage, including its independence and stature, and the number of and management’s response to execution errors. Also, the board of directors and senior management have not always developed clearly defined risk tolerances for investing activities limiting the effectiveness of risk management functions. Many of the issues are long-term in nature and they result from delayed investment decisions and a desire to have the business lines operate autonomously.

The current risk culture is a result of management’s desire to use a decentralized approach to managing business line risk. This structure led to an environment with inconsistent and inadequate identification, escalation, and coverage of all the risk taking activities of the company. The market disruption revealed that leaders did not have a complete understanding of the risk inherent in certain investments and business lines. Examples include but are not limited to the level of subprime risk in the trading books and retained positions, the risk in certain nonbank investments including BluepointRE, and the concentration of subprime borrowers in the GoldenWest portfolio. These concerns are partially offset by some examples where the risk management processes functioned adequately both in the business lines and with the centralized corporate function. The examples of VaR limits and CDO positions are listed above in the overall summary.

The lack of strong independent risk management functions also contributes to our concern with oversight, especially with investing outside the normal course of business. A particular concern is the lack of strong independent risk management over the Treasury and Balance Sheet Management group. This group takes additional risk for yield or tax benefit where appropriate. This risk is usually taken in the form of structured transactions and/or other investments and many of these transactions have not performed as planned.

Until recently, senior management has not promoted a culture of accountability as clear responsibility for execution errors was not transparent. With the issues of the Payments Processing Corporation (PPC) agreement, the municipal bid rigging case, the casa de cambio investigation and associated foreign exchange trade failure, the Sagittarius documentation error, and the BOL1 counterparty
issue, increased prompt accountability could have limited the problems. The ability of management to increase accountability was further hampered by the lack of clear lines of authority.

Finally, the rating of board and senior management oversight is also influenced by changes in leadership at the CEO level. Newly hired CEO Steel has a limited background in traditional banking and will have to gain this knowledge while changing the culture of the company.

**Policies, Procedures and Limits – Satisfactory**

Policies, procedures, and limits generally worked effectively during the market disruption and as the market began to turn. Established limits helped management to note quickly the depth and serious nature of the market disruption. VaR limits and other trading controls worked adequately and appropriate attention/approval was given to overages. The company monitored counterparty limits, despite weaknesses in systems. To maintain credit exposures within limits, the company hedged certain exposures on specific counterparties. Accounting policies were conservative and the company was quick to recognize losses in their remaining exposures, especially in the CDO book. It is expected that policy limits will need to be adjusted to reflect the weakened financial condition of the company. Key areas include capital and liquidity policies and credit approval limits.

**Risk Monitoring and Management Information Systems – Fair**

Overall consolidated MIS is considered fair. Wachovia’s MIS did not fully capture the risk profile of the company which contributed to less than effective risk identification, similar to many financial institutions. Our comments are pointed towards credit and liquidity MIS, but overall reporting across the organization generally lags that of peer institutions. Management has acknowledged the need to improve tracking of aggregate exposures and that stress parameters did not capture the speed of deterioration and contagion across asset classes. Exposure tracking systems were slow to produce complete and accurate information, especially with the monolines insurers and retained risk in certain CDOs. Liquidity MIS outside of normal reporting is difficult to produce, especially for daily exposure information across the enterprise. Credit IT systems have not kept pace with the growth of the franchise or product offerings. As noted previously, management has deferred or delayed investment decisions that could have improved MIS and data aggregation. For example, the RDS central data repository is supposed to provide a substantial improvement in enterprise data aggregation and analytical flexibility, but the project has been delayed. In addition, counterparty reporting was recognized as deficient some time ago and is only now being enhanced.

Concerns related to completeness, accuracy and timeliness of MIS are noted. When compared with peer institutions, Wachovia’s MIS contains minimal analytical narrative content. MIS often times is more line of business/product-focused which makes enterprise risk assessment cumbersome. Currently, comprehensive mortgage reports that include fulsome information on mortgages booked in the General Bank and Wealth Management are not produced regularly. In retail asset quality reporting, consumer new volume information generally includes more risk characteristics than existing total consumer loans by characteristic.

**Internal Controls and Audit – Satisfactory**

Internal controls are considered satisfactory and the company has addressed most long standing IT infrastructure issues. Since our 2006 letter which required a satisfactory plan to remediate the unacceptable level of proximity risk with the two Winston Salem data centers, progress on the Oxnmoor data center conversion has been satisfactory. The IT remediation projects are substantially complete, but distributed server access controls remain unresolved. The integration of GoldenWest and A. G. Edwards, however, has been executed effectively to date. Additionally, the control environment has benefited from a satisfactory audit program. In 2008, the company successfully transitioned to a new general auditor and it appears the stature of the department is improving. There are further enhancements the audit department should make to help the organization improve risk identification. These include continuing to define and communicate audit’s role as a reassurance function, not risk management or a first line of defense.

Our assessment of the control environment is tempered; however, as the company has suffered significant losses due to execution errors. We currently view these items as isolated control breakdowns and management will be required to conduct a review of each incident to understand control weaknesses, develop solutions, and improve controls.

**Credit Risk Management and Controls**

Credit risk management is satisfactory overall, but weaknesses exist in Board and Senior Management Oversight as well as MIS and Risk Monitoring. The satisfactory rating is based on Wachovia’s well-developed credit approval and management process. The
company maintains up-to-date, comprehensive credit policies online that clearly communicate risk parameters, although geographic and product concentrations were not covered by existing limits. Wachovia has continued its implementation of a less judgmental risk rating system and credit review provides effective independent assessments of credit exposures and processes. Wachovia has attempted to mitigate the risk of its portfolio in the past primarily through loan sales and securitizations and CDS protection on single name exposure, but also now has a Macro Event Risk Hedge Program to help provide event risk protection and some level of systematic risk mitigation.

Last year we rated Board and Senior Management Oversight as satisfactory, but we have downgraded it now to fair as management did not recognize or address the product concentration in the GoldenWest book. Once the issues became apparent, the company (board and senior management) was slow to address the problems at GoldenWest and only recently has management developed plans to exit the option ARM business. Also, credit MIS did not capture the risk tail in GoldenWest and overall analytical quality lags peer institutions. Last year we rated MIS and Risk Monitoring satisfactory, commenting that the systems have been adequate in the past given the size and complexity of the products offered. We expected improvements to more adequately address the needs of the organization. Those changes have not been executed to date. As a result, we are lowering this category rating to fair. Of particular note are credit IT systems, which have not kept pace with the growth in franchise or product offerings. Little or no analytical narrative accompanies data in many reports and graphs are often not accompanied by supporting data. MIS seems to be more line focused versus product-focused, which makes enterprise risk assessment cumbersome. While RDS as a central data repository is expected to offer substantial improvement in terms of enterprise aggregation and analytical flexibility, RDS continues to be delayed. In addition, counterparty reporting was recognized as deficient some time ago, but is only now being enhanced. In the meantime, we have concerns as to whether existing systems are adequate to support credit risk measurement, aggregation and monitoring in this stressed market.

**Market (Trading Book) Risk Management and Controls**

Market risk management and controls remain satisfactory, though we consider Board and Senior Management Oversight fair based on governance weaknesses that surfaced over the past twelve months. Market Risk Management has functioned satisfactorily. However, the company has been unduly exposed to price risk as a result of lapses in governance that were exacerbated by market movements. Numerous operational errors have led to unintended retained risk and significant losses. Additionally, inadequate oversight of Treasury-driven strategies and an apparent lack of critical analysis by front office senior management evidence a culture that became lax in comprehensive discussion of risk. Recent management actions suggest a growing accountability, but management must still demonstrate how it will resolve these weaknesses.

Risk monitoring and reporting have kept management abreast of material risks and efforts to manage that risk. Due to market volatility, numerous VaR limit overages occurred in early 2008, but these were approved by both Market Risk Management as well as the Chief Risk Officer. While traditional risk measures adequately capture much of the firm’s risk, stress testing was found lacking. Specifically, the lack of proper basis risk stresses was evident based on the results in both the TOB and CMBS books. Management is addressing this, but has indicated system capacity limits the amount of additional stress tests that can be performed. Price testing is adequate given the current markets, but Finance staffs are thinly stretched and documentation around illiquid products is limited. Model Validation is current and provides sound coverage to the firm. Internal Audit has proved nimble in altering its schedule as market event changed focus. The staff is competent and the addition of quantitative analysis is a strength. P/L attribution remains inadequate for the size and complexity of trading activities, but improvement has been noted. Management has committed to resolving this weakness and will provide regular updates to regulators outlining the progress.

**Market (Banking Book) Risk Management and Controls**

Interest Rate Risk management practices are satisfactory. MIS and scenario analysis has improved since the implementation of the BancWare system. The new system is used for the earnings at risk measure. However, a project is ongoing to fully transition EVE to BancWare by October 2008 as well. The earning at risk measurement changed recently from an EPS share measure to a net interest income measure. This change is considered positive as the prior measure could mask IRR trends given positive projected EPS. In the current environment, EPS increased the exposure as earnings declined. The limit structure is appropriate and is reflective of a conservative risk philosophy. However, IRR management continues to struggle with modeling the GoldenWest loan portfolio.

The New Products Approval subcategory was downgraded to fair as a few one-off initiatives relating to the Opportunistic Portfolio did not follow all appropriate governance requirements prior to purchases. Alternatively, the Model Review/Validation segment was upgraded to satisfactory as validation work to relieve backlog and requirements for review of all banking book models were met.
Liquidity Risk Management and Controls

Liquidity risk management and controls are in need of improvement and thus are downgraded to an overall fair rating. Driving the ratings change, both Board and Senior Management Oversight and Risk Monitoring and MIS are both downgraded to fair. Although deficiencies are noted, daily liquidity management has been diligent during the turmoil and has adequately managed through the market disruption. Nevertheless, we recognize efforts are hindered due to a lack of a fully integrated global funding process. Liquidity management has not always been aware of other legal entity funding needs and contingencies. Manual systems and lack of mature consolidated processes limit management’s ability to assess risk. In particular, the lack of automated processes to gather exposure from other non-bank entities places extra strain on the limited staff.

During the market disruption, current processes placed ALCO and liquidity management in a reactionary role on several occasions; examples include identification of contingencies, funding certain off-balance sheet items, identifying the need for additional FHLB collateral pledging, and implementing a detailed assessment of an impact to a rating downgrade and identifying need to shrink the balance sheet (Projects ALVIN and STANLEY). Recognizing shortfalls, management has made efforts to improve and capture additional liquidity risks within the business lines, other legal entities, as well as improve Wachovia’s liquidity and capital positions. Further support and action is needed from a senior management level.

Given the current financial issues facing the institution and missteps taken by senior management that have resulted in heightened reputational and headline risks, liquidity and capital management are now working in crisis mode. The level of staffing is a concern as the company is reliant on a few key individuals for liquidity and capital management. Although the team is fully capable, the staff is stretched thin. Further, the removal of the CEO and recent resignation of the Treasurer speak further to a lack of solid governance. Information requested and provided to senior management and the various oversight committees throughout the crisis have varied and, at times, infrequent. Quality and quantity of information has improved recently but appears to coincide with increased market concern over Wachovia.

Policies are generally adequate and the limit structures are consistent with their moderate risk tolerance philosophy. In some cases, policies and procedures need to more fully outline existing processes. The contingency funding plan (CFP) stress scenarios are comprehensive but are geared from ratings downgrades. Although the assessment does incorporate some aspects of a systemic risk relating to securitizations and ABCP disruptions, more formal systemic stress scenarios need to be created. We found improvements to the consolidated CFP process; it now incorporates the parent and four other legal entities. Enhanced processes are necessary to ensure identification of contingent liabilities throughout the organization which could require parent and bank supported funding.

Internal audit department’s oversight and coverage is adequate. However, focus tends to be more on process related issues versus systemic issues. We plan to do further work around the quality and coverage of Balance Sheet Management audits over the next year.

Operational Risk Management and Controls

Overall, operational risk management practices are considered satisfactory. However, risk management has been hampered at times by a culture lacking consistent accountability and compensation practices driven almost exclusively by financial performance. Additionally, it is unclear how the combination of a new CEO and separate major cost cutting initiatives will impact the control environment and risk management infrastructure. Corporate Operational Risk Management has a new leader who is transforming the group into a more active risk management function. While this change is viewed as a positive, deficiencies identified in the firm’s risk self-assessment program have challenged execution consistency, aggregation and reporting, which management is addressing. Within technology, the establishment of the Risk Portfolio Management governance process and substantial completion of the information security remediation projects has raised the IT and information security environments to a satisfactory status. This year the company transitioned to a new General Auditor, who is raising the stature of the program and also driving positive cultural changes within the function. Improvements have been noted with the IT and Project Audit groups, which were areas of concern in the past; however, further opportunities to improve exist within Audit’s call program and reporting of specific opinions on risk management. The improvements noted in the technology environment, combined with Audit’s progress, resulted in an overall upgrade of the internal controls rating to satisfactory. That said, recent noteworthy loss events and publicized investigations, while not considered systemic, are nonetheless indicative of management’s need to ensure the control environment receives appropriate attention and “tone from the top”. Management has devoted appropriate attention to pandemic preparedness, but escalation processes require development. Finally, management has agreed to migrate to an AMA capital model which utilizes multiple units of measure, and design efforts to date appear reasonable.
Legal and Compliance Risk Management and Controls

Overall, legal and compliance risk management remains satisfactory although we have downgraded two individual factors, culture and compliance monitoring to fair and have the senior management, governance, structure, and oversight factor on watch for downgrade. In the culture factor we feel that board and senior management have communicated their expectations regarding integrity and ethical conduct but we are questioning the effectiveness of their message given two major issues. The PPC settlement and the municipal bid rigging investigation have exposed inappropriate employee conduct contrary to the corporation’s code of conduct and ethics policy. Our rating for monitoring practices has been downgraded as several red flags were missed by line of business management and compliance in the PPC, casas de cambio and numi bid rigging issues. The senior management, governance, structure, and oversight individual factor remains satisfactory although we have this on watch for downgrade. This oversight appears to be appropriate but recent compliance issues call into question the day to day supervision of employees as well as the effectiveness of senior management oversight/ recognition of compliance risks. Our plan will be to conduct an exam that reviews Compliance Risk Management and Controls with particular focus on board and senior management oversight.
### VIII. Consolidated Rating Matrices

#### Consolidated Inherent Risk Ratings

<table>
<thead>
<tr>
<th>Inherent Risk by Risk Type</th>
<th>Credit Risk</th>
<th>Market Risk</th>
<th>Liquidity Risk</th>
<th>Operational Risk</th>
<th>Legal &amp; Compliance Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Portfolio Characteristics</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2007: Factor Rating</td>
<td>Mod</td>
<td>Mod</td>
<td>Mod</td>
<td>Cons</td>
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<tr>
<td>2007: Overall Risk Type Rating</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Cons</td>
<td>Moderate</td>
</tr>
<tr>
<td>2008: Factor Rating</td>
<td>Mod</td>
<td>Mod</td>
<td>Mod</td>
<td>Cons</td>
<td>Cons</td>
</tr>
<tr>
<td>2008: Overall Risk Type Rating</td>
<td>Moderate</td>
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<td>Moderate</td>
<td>Cons</td>
<td>Cons</td>
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#### Risk Management and Controls Summary

<table>
<thead>
<tr>
<th>Risk Management and Controls</th>
<th>Board and Senior Management Oversight</th>
<th>Policies &amp; Procedures</th>
<th>MIS and Risk Monitoring</th>
<th>Internal Controls and Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ctr</td>
<td>MRTBMRBBLiqOpR/L/C</td>
<td>MRTBMRBBLiqOpR/L/C</td>
<td>MRTBMRBBLiqOpR/L/C</td>
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<td>Satisfactory</td>
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<td>2008: Overall Rating</td>
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<td>Satisfactory</td>
<td>Fair</td>
<td>Satisfactory</td>
</tr>
</tbody>
</table>

**Note:** Restricted – F.R.