CLIFFS NATURAL RESOURCES INC.
Form DEFA14A
July 23, 2014

UNITED STATES
Securities and Exchange Commission
Washington D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant o

Check the appropriate box:

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a REIT, our actual results and those of Wachovia Real Estate Investment Corp. s operations for any particular year might not satisfy these requirements. Sullivan & Cromwell will not monitor our compliance or that of Wachovia Real Estate Investment Corp. with the requirements for REIT qualification on an ongoing basis.

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The sections of the Code applicable to REITs are highly technical and complex. The following discussion summarizes material aspects of these sections of the Code.

As a REIT, we generally will not have to pay Federal corporate income taxes on our net income that we currently distribute to shareholders. This treatment substantially eliminates the double taxation at the corporate and shareholder levels that generally results from investment in a regular corporation.

However, we will have to pay Federal income tax as follows:

First, we will have to pay tax at regular corporate rates on any undistributed real estate investment trust taxable income, including undistributed net capital gains.

Second, under certain circumstances, we may have to pay the alternative minimum tax on our items of tax preference.

Third, if we have (a) net income from the sale or other disposition of foreclosure property , as defined in the Code, which is held primarily for sale to customers in the ordinary course of business, or (b) other non-qualifying income from foreclosure property, we will have to pay tax at the highest corporate rate on that income.

Fourth, if we have net income from prohibited transactions , as defined in the Code, we will have to pay a 100% tax on that income. Prohibited transactions are, in general, certain sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business.

Fifth, if we should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below under Requirements for Qualification Income Tests , but have nonetheless maintained our qualification as a REIT because we have satisfied some other requirements, we will have to pay a 100% tax on an amount equal to (a) the gross income attributable to the greater of (i) 75% of our gross income over the amount of gross income that is qualifying income for purposes of the 75% test, and (ii) 90% of our gross income (95% for taxable years ending before January 1, 2001) over the amount of gross income that is qualifying income for purposes of the 95% test, multiplied by (b) a fraction intended to reflect our profitability.

Sixth, if we should fail to distribute during each calendar year at least the sum of (a) 85% of our real estate investment trust ordinary income for that year, (b) 95% of our real estate investment trust capital gain net income for that year, and (c) any undistributed taxable income from prior periods, we will have to pay a 4% excise tax on the excess of that required distribution over the amounts actually distributed.

Seventh, if we acquire any asset from a C corporation in certain transactions in which we must adopt the basis of the asset or any other property in the hands of the C corporation as the basis of the asset in our hands, and we recognize gain on the disposition of that asset during the 10-year period beginning on the date on which we acquire that asset, then we will have to pay tax on the built-in gain at the highest regular corporate rate. A C corporation means generally a corporation that has to pay full corporate-level tax.

Eighth, if we receive certain non-arms length income from a taxable REIT subsidiary (as defined under Requirements for Qualification Asset Tests), or as a result of services provided by a taxable REIT subsidiary to our tenants, we will be subject to a 100% tax on the amount of our non-arms length income.

Requirements for Qualification

The Code defines a REIT as a corporation, trust or association:

which is managed by one or more trustees or directors;

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- the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- which would otherwise be taxable as a domestic corporation, but for Sections 856 through 859 of the Code;
- which is neither a financial institution nor an insurance company to which certain provisions of the Code apply;
- the beneficial ownership of which is held by 100 or more persons;
- during the last half of each taxable year, not more than 50% in value of the outstanding stock of which is owned, directly or constructively, by five or fewer individuals, as defined in the Code to include certain entities; and
- which meets certain other tests, described below, regarding the nature of its income and assets.

The Code provides that the conditions described in the first through fourth bullet points above must be met during the entire taxable year and that the condition described in the fifth bullet point above must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months, other than the first 12 months.

We have satisfied the conditions described in the first through fifth bullet points of the first paragraph of this section and believe that we have also satisfied the condition described in the sixth bullet point of the preceding paragraph. In addition, our certificate of incorporation provides for restrictions regarding the transfer of our shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in the fifth and sixth bullet points of the preceding paragraph. The ownership and transfer restrictions pertaining to the shares are described above in this prospectus under the heading Description of Other Wachovia Funding Capital Stock Restrictions on Ownership and Transfer .

Income Tests. In order to maintain our qualification as a REIT, we annually must satisfy two gross income requirements.

- First, we must derive at least 75% of our gross income, excluding gross income from prohibited transactions, for each taxable year directly or indirectly from investments relating to real property or mortgages on real property, including interest on loans secured by real estate and rents from real property , as defined in the Code, or from certain types of temporary investments.
- Second, at least 95% of our gross income, excluding gross income from prohibited transactions, for each taxable year must be derived from real property investments as described in the preceding bullet point, dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of these types of source.

As of the date of this prospectus, we do not own any rental income generating property nor do we have any plans to acquire any such property.

The term interest generally does not include any amount received or accrued, directly or indirectly, if the determination of that amount depends in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be wholly excluded from the term interest solely because it is based on a fixed percentage or percentages of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we satisfy the requirements of other provisions of the Code that allow relief from disqualification as a REIT. These relief provisions will generally be available if:

- our failure to meet the income tests was due to reasonable cause and not due to willful neglect;
- we attach a schedule of the sources of our income to our Federal income tax return; and
- any incorrect information on the schedule was not due to fraud with intent to evade tax.

We might not be entitled to the benefit of these relief provisions, however. As discussed in Requirements for Qualification Annual Distribution Requirements below, even if these relief provisions apply, we would have to pay a tax on the excess income.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy three tests relating to the nature of our assets.

First, at least 75% of the value of our total assets must be represented by real estate assets, including (a) stock issued by another REIT, (b) for a period of one year from the date of our receipt of proceeds of an offering of our shares of beneficial interest or publicly offered debt with a term of at least five years, stock or debt instruments purchased with these proceeds, and (c) cash, cash items and government securities.

Second, not more than 25% of the value of our total assets may be represented by securities other than those in the 75% asset class.

Third, not more than 20% of the value of our total assets may constitute securities issued by taxable REIT subsidiaries and of the investments included in the 25% asset class, the value of any one issuer s securities, other than securities issued by another REIT or by a taxable REIT subsidiary, owned by us may not exceed 5% of the value of our total assets. Moreover, we may not own more than 10% of the vote or value of the outstanding securities of any one issuer, except for issuers that are REITs, qualified REIT subsidiaries or taxable REIT subsidiaries, or debt instruments that are considered straight debt under a safe harbor provision of the Code. For these purposes, a taxable REIT subsidiary is any corporation in which we own an interest that joins with us in making an election to be treated as a taxable REIT subsidiary and certain subsidiaries of a taxable REIT subsidiary, if the subsidiaries do not engage in certain activities.

Since November 25, 1996, we have owned more than 10% of the voting securities of Wachovia Real Estate Investment Corp. Our ownership interest in Wachovia Real Estate Investment Corp. will not cause us to fail to satisfy the asset tests for REIT status so long as Wachovia Real Estate Investment Corp. qualifies as a REIT for its first taxable year and each subsequent taxable year. We believe that Wachovia Real Estate Investment Corp. will qualify as a REIT.

Since October 7, 2002, we have also owned more than 10% of the voting securities of Wachovia Preferred Realty, LLC (WPR). Our ownership interest in WPR will not cause us to fail to satisfy the asset tests for REIT status so long as WPR qualifies as a taxable REIT subsidiary for its taxable year ending in 2002 and each subsequent year. We believe that WPR will qualify as a taxable REIT subsidiary.

Annual Distribution Requirements. In order to qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our shareholders in an amount at least equal to (a) the sum of (i) 90% of our real estate investment trust taxable income , computed without regard to the dividends paid deduction and our net capital gain, and (ii) 90% of the net after-tax income, if any, from foreclosure property, minus (b) the sum of certain items of non-cash income.

In addition, if we dispose of any asset within 10 years of acquiring it, we will be required to distribute at least 90% of the after-tax built-in gain, if any, recognized on the disposition of the asset.

These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year to which they relate and if paid on or before the first regular dividend payment after the declaration.

To the extent that we do not distribute or are not treated as having distributed all of our net capital gain or distribute or are treated as having distributed at least 90%, but less than 100%, of our real estate investment trust taxable income, as adjusted, we will have to pay tax on those amounts at regular ordinary

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and capital gain corporate tax rates. Furthermore, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for that year, (b) 95% of our capital gain net income for that year, and (c) any undistributed taxable income from prior periods, we would have to pay a 4% excise tax on the excess of the required distribution over the amounts that are actually distributed or are taxed at regular ordinary and capital gain corporate rates.

We intend to satisfy the annual distribution requirements.

From time to time, we may not have sufficient cash or other liquid assets to meet the 90% distribution requirement due to timing differences between (a) when we actually receive income and when we actually pay deductible expenses, and (b) when we include the income and deduct the expenses in arriving at our taxable income. If timing differences of this kind occur, in order to meet the 90% distribution requirement, we may find it necessary to arrange for short-term, or possibly long-term, borrowings or to pay dividends in respect of our common stock in the form of taxable stock dividends.

Under certain circumstances, we may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

Failure to Qualify as a REIT

If we fail to qualify for taxation as a REIT in any taxable year, and the statutory relief provisions do not apply, we will have to pay tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. In addition, we might be taxed as a member of the consolidated group that includes Wachovia and the Bank. We will not be able to deduct distributions to shareholders in any year in which we fail to qualify, nor will we be required to make distributions to shareholders. In this event, to the extent of current and accumulated earnings and profits, all distributions to shareholders will be taxable to the shareholders as ordinary income and corporate distributees may be eligible for the dividends received deduction if they satisfy the relevant provisions of the Code. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. We might not be entitled to such statutory relief in all circumstances.

Taxation of Holders of Preferred Stock

U.S. Shareholders

As used in this section, the term U.S. shareholder means a holder of common stock who, for United States Federal income tax purposes, is:

- a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States Federal income taxation regardless of its source; or

a trust if a U.S. court can exercise primary supervision over the trust s administration and one or more United States persons have authority to control all substantial decisions of the trust.

As long as we qualify as a REIT, distributions made by us out of our current or accumulated earnings and profits, and not designated as capital gain dividends, will constitute dividends taxable to our taxable U.S. shareholders as ordinary income. Distributions of this kind will not be eligible for the dividends received deduction in the case of U.S. shareholders that are corporations. Distributions made by us that we properly designate as capital gain dividends will be taxable to U.S. shareholders as gain from the sale of a capital asset held for more than one year, to the extent that they do not exceed our actual net capital gain for the taxable year, without regard to the period for which a U.S. shareholder has held his shares. Thus, with certain limitations, capital gain dividends received by an individual U.S. shareholder may be eligible for reduced rates of taxation. U.S. shareholders that are corporations may, however, be required to treat up to 20% of certain capital gain dividends as ordinary income. Because we do not expect, however, to recognize substantial capital gains, we expect most of our dividends to be ordinary income.

To the extent that we make distributions, not designated as capital gain dividends, in excess of our current and accumulated earnings and profits, these distributions will be treated first as a tax-free return of capital to each U.S. shareholder. Thus, these distributions will reduce the adjusted basis which the U.S. shareholder has in his shares for tax purposes by the amount of the distribution, but not below zero. Distributions in excess of a U.S. shareholder s adjusted basis in his shares will be taxable as capital gains, provided that the shares have been held as a capital asset. For purposes of determining the portion of distributions on separate classes of shares that will be treated as dividends for Federal income tax purposes, current and accumulated earnings and profits will be allocated to distributions resulting from priority rights of preferred shares before being allocated to other distributions.

Dividends authorized by us in October, November or December of any year and payable to a shareholder of record on a specified date in any of these months will be treated as both paid by us and received by the shareholder on December 31 of that year, provided that we actually pay the dividend on or before January 31 of the following calendar year. Shareholders may not include in their own income tax returns any of our net operating losses or capital losses.

U.S. shareholders holding shares at the close of our taxable year will be required to include, in computing their long-term capital gains for the taxable year in which the last day of our taxable year falls, the amount that we designate in a written notice mailed to our shareholders. We may not designate amounts in excess of our undistributed net capital gain for the taxable year. Each U.S. shareholder required to include the designated amount in determining the shareholder s long-term capital gains will be deemed to have paid, in the taxable year of the inclusion, the tax paid by us in respect of the undistributed net capital gains. U.S. shareholders to whom these rules apply will be allowed a credit or a refund, as the case may be, for the tax they are deemed to have paid. U.S. shareholders will increase their basis in their shares by the difference between the amount of the includible gains and the tax deemed paid by the shareholder in respect of these gains.

Distributions made by us and gain arising from a U.S. shareholder s sale or exchange of shares will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any passive losses against that income or gain.

When a U.S. shareholder sells or otherwise disposes of shares, the shareholder will recognize gain or loss for Federal income tax purposes in an amount equal to the difference between (a) the amount of cash and the fair market value of any property received on the sale or other disposition, and (b) the holder s adjusted basis in the shares for tax purposes. This gain or loss will be capital gain or loss if the U.S. shareholder has held the shares as a capital asset. The gain or loss will be long-term gain or loss if the U.S. shareholder has held the shares for more than one year. Capital gain of an individual U.S. shareholder is generally taxed at a maximum rate of 20% where the property is held for more than one year, and 18% where the property is held for more than 5 years. In general, any loss recognized by a U.S. shareholder when the shareholder sells or otherwise disposes of shares of ours that the shareholder has held for six months or less, after applying certain holding period rules, will be treated as a long-term capital loss, to the extent of distributions received by the shareholder from us which were required to be treated as long-term capital gains.

Backup Withholding. We will report to our U.S. shareholders and the IRS the amount of dividends paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules,

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backup withholding may apply to a shareholder with respect to dividends paid unless the holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. The IRS may also impose penalties on a U.S. shareholder that does not provide us with his correct taxpayer identification number. A shareholder may credit any amount paid as backup withholding against the shareholder s income tax liability. In addition, we may be required to withhold a portion of capital gain distributions, if any, to shareholders who fail to certify their non-foreign status to us.

Taxation of Tax-Exempt Shareholders. The IRS has ruled that amounts distributed as dividends by a REIT generally do not constitute unrelated business taxable income when received by a tax-exempt entity. Based on that ruling, provided that a tax-exempt shareholder is not one of the types of entity described in the next paragraph and has not held its shares as debt financed property within the meaning of the Code, and the shares are not otherwise used in a trade or business, the dividend income from shares will not be unrelated business taxable income to a tax-exempt shareholder. Similarly, income from the sale of shares will not constitute unrelated business taxable income unless the tax-exempt shareholder has held the shares as debt financed property within the meaning of the Code or has used the shares in a trade or business.

Income from an investment in our shares will constitute unrelated business taxable income for tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from Federal income taxation under the applicable subsections of Section 501(c) of the Code, unless the organization is able to properly deduct amounts set aside or placed in reserve for certain purposes so as to offset the income generated by our shares. Prospective investors of the types described in the preceding sentence should consult their own tax advisors concerning these set aside and reserve requirements.

Notwithstanding the foregoing, however, a portion of the dividends paid by a pension-held REIT will be treated as unrelated business taxable income to any trust which:

- is described in Section 401(a) of the Code;
- is tax exempt under Section 501(a) of the Code; and
- holds more than 10% (by value) of the equity interests in the REIT.

Tax-exempt pension, profit-sharing and stock bonus funds that are described in Section 401(a) of the Code are referred to below as qualified trusts . A REIT is a pension-held REIT if:

- it would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that stock owned by qualified trusts will be treated, for purposes of the not closely held requirement, as owned by the beneficiaries of the trust (rather than by the trust itself); and
- either (a) at least one qualified trust holds more than 25% by value of the interests in the REIT, or (b) one or more qualified trusts, each of which owns more than 10% by value of the interests in the REIT, hold in the aggregate more than 50% by value of the interests in the REIT.

The percentage of any REIT dividend treated as unrelated business taxable income to a qualifying trust is equal to the ratio of (a) the gross income of the REIT from unrelated trades or businesses, determined as though the REIT were a qualified trust, less direct expenses related to this gross income, to (b) the total gross income of the REIT, less direct expenses related to the total gross income. A de minimis exception applies where this percentage is less than 5% for any year. We do not expect to be classified as a pension-held REIT.

The rules described above under the heading U.S. shareholders concerning the inclusion of our designated undistributed net capital gains in the income of our shareholders will apply to tax-exempt entities. Thus, tax-exempt entities will be allowed a credit or refund of the tax deemed paid by these entities in respect of the includible gains.

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Non-U.S. Shareholders

The rules governing U.S. Federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and estates or trusts that in either case are not subject to United States Federal income tax on a net income basis, which we call non-U.S. shareholders , are complex. The following discussion is only a limited summary of these rules. Prospective non-U.S. shareholders should consult with their own tax advisors to determine the impact of U.S. Federal, state and local income tax laws with regard to an investment in Series A preferred securities, including any reporting requirements.

Ordinary Dividends. Distributions, other than distributions that are treated as attributable to gain from sales or exchanges by us of U.S. real property interests, as discussed below, and other than distributions designated by us as capital gain dividends, will be treated as ordinary income to the extent that they are made out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution will ordinarily apply to distributions of this kind to non-U.S. shareholders, unless an applicable tax treaty reduces that tax. However, if income from the investment in the shares is treated as effectively connected with the non-U.S. shareholder s conduct of a U.S. trade or business or is attributable to a permanent establishment that the non-U.S. shareholder maintains in the U.S., if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. shareholder to U.S. taxation on a net income basis, tax at graduated rates will generally apply to the non-U.S. shareholder in the same manner as U.S. shareholders are taxed with respect to dividends, and the 30% branch profits tax may also apply if the shareholder is a foreign corporation. We expect to withhold U.S. tax at the rate of 30% on the gross amount of any dividends, other than dividends treated as attributable to gain from sales or exchanges of U.S. real property interests and capital gain dividends, paid to a non-U.S. shareholder, unless (a) a lower treaty rate applies and the required form evidencing eligibility for that reduced rate is filed with us or the appropriate withholding agent, or (b) the non-U.S. shareholder files an IRS Form W-8 ECI or a successor form with us or the appropriate withholding agent claiming that the distributions are effectively connected with the non-U.S. shareholder s conduct of a U.S. trade or business.

Distributions to a non-U.S. shareholder that are designated by us at the time of distribution as capital gain dividends which are not attributable to or treated as attributable to the disposition by us of a U.S. real property interest generally will not be subject to U.S. Federal income taxation, except as described below.

Return of Capital. Distributions in excess of our current and accumulated earnings and profits, which are not treated as attributable to the gain from our disposition of a U.S. real property interest, will not be taxable to a non-U.S. shareholder to the extent that they do not exceed the adjusted basis of the non-U.S. shareholder s shares. Distributions of this kind will instead reduce the adjusted basis of the shares. To the extent that distributions of this kind exceed the adjusted basis of a non-U.S. shareholder s shares, they will give rise to tax liability if the non-U.S. shareholder otherwise would have to pay tax on any gain from the sale or disposition of our shares, as described below. If it cannot be determined at the time a distribution is made whether the distribution will be in excess of current and accumulated earnings and profits, withholding will apply to the distribution at the rate applicable to dividends. However, the non-U.S. shareholder may seek a refund of these amounts from the IRS if it is subsequently determined that the distribution was, in fact, in excess of our current accumulated earnings and profits.

Capital Gain Dividends. For any year in which we qualify as a REIT, distributions that are attributable to gain from sales or exchanges by us of U.S. real property interests (which, unlike the definition of real estate assets for REIT qualification purposes, does not include interest on many loans secured by real property) will be taxed to a non-U.S. shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980, as amended. Under this statute, these distributions are taxed to a non-U.S. shareholder as if the gain were effectively connected with a U.S. business. Thus, non-U.S. shareholders will be taxed on the distributions at the normal capital gain rates applicable to U.S. shareholders, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of individuals. We are required by applicable Treasury regulations under this statute to withhold 35% of any distribution that we could designate as a capital gain

dividend. However, if we designate as a capital gain dividend a distribution made before the day we actually effect the designation, then although the distribution may be taxable to a non-U.S. shareholder, withholding does not apply to the distribution under this statute. Rather, we must effect the 35% withholding from distributions made on and after the date of the designation, until the distributions so withheld equal the amount of the prior distribution designated as a capital gain dividend. The non-U.S. shareholder may credit the amount withheld against its U.S. tax liability.

Sales of Shares. Gain recognized by a non-U.S. shareholder upon a sale or exchange of common stock generally will not be taxed under the Foreign Investment in Real Property Tax Act if we are a domestically controlled REIT , defined generally as a REIT, less than 50% in value of whose stock is and was held directly or indirectly by foreign persons at all times during a specified testing period. We believe that we are and will continue to be a domestically controlled REIT, and, therefore, that taxation under this statute generally will not apply to the sale of our shares. However, gain to which this statute does not apply will be taxable to a non- U.S. shareholder if investment in the shares is treated as effectively connected with the non-U.S. shareholder s U.S. trade or business or is attributable to a permanent establishment that the non-U.S. shareholder maintains in the U.S. if that is required by an applicable income tax treaty as a condition for subjecting the non-U.S. shareholder to U.S. taxation on a net income basis. In this case, the same treatment will apply to the non-U.S. shareholder as to U.S. shareholders with respect to the gain. In addition, gain to which the Foreign Investment in Real Property Tax Act does not apply will be taxable to a non-U.S. shareholder if the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, or maintains an office or a fixed place of business in the United States to which the gain is attributable. In this case, a 30% tax will apply to the nonresident alien individual s capital gains. A similar rule will apply to capital gain dividends to which this statute does not apply.

If we were not a domestically controlled REIT, tax under the Foreign Investment in Real Property Tax Act would apply to a non-U.S. shareholder s sale of shares only if the selling non-U.S. shareholder owned more than 5% of the class of shares sold at any time during a specified period. This period is generally the shorter of the period that the non-U.S. shareholder owned the shares sold or the five-year period ending on the date when the shareholder disposed of the shares. If tax under this statute applies to the gain on the sale of shares, the same treatment would apply to the non-U.S. shareholder as to U.S. shareholders with respect to the gain, subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

Federal Estate Taxes

Preferred shares held by a non-U.S. shareholder at the time of death will be included in the shareholder s gross estate for United States Federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

If you are a non-U.S. shareholder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- dividend payments and

- the payment of the proceeds from the sale of preferred shares effected at a United States office of a broker, as long as:

the income associated with these payments is otherwise exempt from United States Federal income tax; and

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the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished to the payor or broker:

a valid IRS Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or

other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations; or

you otherwise establish an exemption.

Payment of the proceeds from the sale of preferred shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of preferred shares that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

the proceeds are transferred to an account maintained by you in the United States;

the payment of proceeds or the confirmation of the sale is mailed to you at a United States address; or

the sale has some other specified connection with the United States as provided in U.S. Treasury regulations;

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of preferred shares will be subject to information reporting if it is effected at a foreign office of a broker that is:

a United States person;

a controlled foreign corporation for United States tax purposes;

a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period; or

a foreign partnership, if at any time during its tax year:

one or more of its partners are U.S. persons , as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership; or such foreign partnership is engaged in the conduct of a United States trade or business;

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

Other Tax Consequences

State or local taxation may apply to us and our shareholders in various state or local jurisdictions, including those in which we or they transact business or reside. The state and local tax treatment of us and our shareholders may not conform to the Federal income tax consequences discussed above. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in us.

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ERISA CONSIDERATIONS

The fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), should be considered by the fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of ERISA (an ERISA Plan) in the context of the ERISA Plan s particular circumstances before authorizing an investment in the Series A preferred securities (and the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange). Among other factors, the fiduciary should consider whether such an investment is in accordance with the documents governing the ERISA Plan and whether an investment is appropriate for the ERISA Plan in view of its overall investment policy and the composition and diversification of its portfolio.

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans, as well as individual retirement accounts, self-employment retirement plans and other pension and profit-sharing plans subject to Section 4975 of the Code (together with ERISA Plans, the Plans) from engaging in certain transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code with respect to the Plan. Therefore, fiduciaries of ERISA Plans and persons making investment decisions for other Plans should also consider whether an investment in the Series A preferred securities (and the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange) might constitute or give rise to a prohibited transaction under ERISA and the Code. We and Wachovia may each be considered a party in interest or disqualified person with respect to a Plan to the extent we or certain of our affiliates are engaged in businesses which provide services to such Plan. If so, the acquisition and holding by such Plan of the Series A preferred securities (or the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange) could be a prohibited transaction.

There are five prohibited transaction class exemptions (PTCEs) issued by the Department of Labor which could exempt the acquisition and holding of the Series A preferred securities (or the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange) from the prohibited transaction provisions of ERISA and the Code PTCE 84-14, for certain transactions determined by qualified professional asset managers, PTCE 90-1, for certain transactions involving insurance company pooled separate accounts, PTCE 91-38, for certain transactions involving bank collective investment funds, PTCE 95-60 for certain transactions involving insurance company general accounts, and PTCE 96-23, for certain transactions determined by in-house asset managers.

Under a regulation issued by the U.S. Department of Labor (referred to as the Plan Asset Regulation), which governs what constitutes the assets of a Plan, our assets will not be treated as assets of a Plan if the Series A preferred securities are publicly-offered securities . This will be the case under the Plan Asset Regulation if the Series A preferred securities are:

- widely held (that is, owned by 100 or more investors independent of us and of each other);
- freely transferable; and
- sold as part of an offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (the Securities Act) and then timely registered under Section 12(b) or 12(g) of the Exchange Act.

We expect (although no assurances can be given) that (a) the Series A preferred securities will be held by at least 100 independent investors at the conclusion of the offering, (b) there are no restrictions imposed on the transfer of the Series A preferred securities and the Series A preferred securities will be sold as part of an offering pursuant to an effective registration statement under the Securities Act, and (c) the Series A preferred securities will be timely registered under the Exchange Act. Based on the foregoing, it is expected that the Series A preferred securities will meet the requirements for publicly-offered securities .

The Plan Asset Regulation provides an additional exception for operating companies (i.e., an entity that is primarily engaged, directly or through one or more majority owned subsidiaries, in the production or sale of a product or service other than the investment of capital). Assuming that Wachovia qualifies as an operating company at the time of the exchange, a Plan s ownership of the depositary shares representing the Wachovia Series G, Class A preferred stock would not cause the assets of Wachovia to be treated as assets of the Plan.

Regardless of whether our assets or Wachovia s assets are deemed to be plan assets of Plans investing in the securities, the acquisition and holding of the Series A preferred securities (or the depositary shares representing the Wachovia Series G, Class A preferred stock) with plan assets could itself result in a prohibited transaction. Accordingly, each purchaser and transferee of the Series A preferred securities (and each holder of the depositary shares representing the Wachovia Series G, Class A preferred stock upon the occurrence of a Conditional Exchange) is deemed to represent that either the Series A preferred securities (and the depositary shares representing the Wachovia Series G, Class A preferred stock) are not acquired with assets of a Plan, or that the acquisition and holding of the Series A preferred securities (or the depositary shares representing the Wachovia Series G, Class A preferred stock upon the occurrence of a Conditional Exchange) is eligible for the relief available under PTCE 84-14, PTCE 90-1, PTCE 91-38, PTCE 95-60 or PTCE 96-23.

Due to the complexity of these rules and the penalties imposed upon persons involved in prohibited transactions, it is important that a Plan considering an investment in the Series A preferred securities (and the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange) consult with its counsel regarding the consequences under ERISA and the Code of such investment. Plans that are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) generally are not subject to the requirements of ERISA or the prohibited transaction provisions of Section 4975 of the Code; however, any such plan subject to Federal, state or local law substantially similar to the foregoing provisions will be deemed to represent its acquisition and holding of the Series A preferred securities (and the depositary shares representing the Wachovia Series G, Class A preferred stock into which the Series A preferred securities are exchangeable upon the occurrence of a Conditional Exchange) is not prohibited or is eligible for exemptive relief.

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PLAN OF DISTRIBUTION

This prospectus, together with any applicable prospectus supplements, will be used by broker-dealer affiliates of Wachovia Funding, including, without limitation, Wachovia Securities, Inc., in connection with offers and sales of the Series A preferred securities or depositary shares representing one-sixth of a share of Wachovia Series G, Class A preferred stock in market-making transactions, including block positioning and block trades, at negotiated prices related to the prevailing market price at the time of sale. Any of Wachovia Funding s broker-dealer affiliates, including, without limitation, Wachovia Securities, Inc., may act as principal or agent in such transactions. None of Wachovia Funding s broker-dealer affiliates, including, without limitation, Wachovia Securities, Inc., have any obligation to make a market in any of the Series A preferred securities or the depositary shares and any such affiliate may discontinue any market-making activities at any time without notice, at its sole discretion. Broker-dealers purchasing Series A preferred securities or the depositary shares from affiliates of Wachovia Funding or Wachovia, respectively, including, without limitation, Wachovia Securities, Inc., may be deemed to be underwriters as that term is defined in the Securities Act and subject to applicable prospectus delivery requirements.

Neither Wachovia Funding nor Wachovia Preferred Holding expects to receive any proceeds from market-making transactions undertaken by their broker-dealer affiliates, including, without limitation, Wachovia Securities, Inc.

Information about trade and settlement dates, as well as the purchase price, for market-making transactions will be provided to the purchaser in a separate confirmation of sale.

Wachovia Securities, Inc. is an affiliate of ours and of Wachovia Preferred Holding.

Certain underwriters involved in the original offering of our Series A preferred securities and their affiliates have in the past provided, and may in the future provide, investment banking services to Wachovia, the Bank, or their affiliates in the ordinary course of business.

Wachovia Preferred Holding, which will own 99.85% of our shares of common stock, is affiliated with us. The Bank owns 99.95% of Wachovia Preferred Holding s common stock. Thus, the Bank may be deemed to beneficially own the Series A preferred securities being offered to the public even though Wachovia Preferred Holding will be the sole record owner. As described in more detail under Business in this prospectus, we acquired, and in the future will acquire, assets from the Bank and its affiliates and have made arrangements with the Bank and its affiliates for the servicing of the loans in our portfolio.

The participation of Wachovia Securities, Inc. in the offer and sale of the Series A preferred securities must comply with the requirements of Rule 2720 of the National Association of Securities Dealers, Inc. regarding underwriting securities of an affiliate . Wachovia Securities, Inc. will not execute a transaction in the Series A preferred securities in a discretionary account without the prior specific written approval of such member s customer.

EXPERTS

The consolidated financial statements of Wachovia Funding as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, have been included herein in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

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The consolidated financial statements of Wachovia as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The restated audited financial statements of former Wachovia Corporation at December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, included in Wachovia s Current Report on Form 8-K dated June 5, 2002 and incorporated by reference herein, have been incorporated by reference herein in reliance upon the report of Ernst & Young LLP, independent auditors. The restated audited financial statements referred to above are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

VALIDITY OF SECURITIES

The validity of our Series A preferred securities and the depositary shares representing an interest in shares of Wachovia Series G, Class A preferred stock will be passed upon for us and Wachovia by Ross E. Jeffries, Jr., Esq., Senior Vice President and Assistant General Counsel of Wachovia, and by Sullivan & Cromwell, New York, New York. Sullivan & Cromwell will rely upon the opinion of Mr. Jeffries as to matters of North Carolina law, and Mr. Jeffries will rely upon the opinion of Sullivan & Cromwell as to matters of New York law. Mr. Jeffries owns shares of Wachovia s common stock and holds options to purchase additional shares of Wachovia s common stock. Sullivan & Cromwell regularly performs legal services for Wachovia. Certain members of Sullivan & Cromwell performing these legal services own shares of Wachovia s common stock. The validity of our Series A preferred securities and the depositary shares representing an interest in shares of Wachovia Series G, Class A preferred stock will be passed upon for the underwriters by Cleary, Gottlieb, Steen & Hamilton.

WHERE YOU CAN FIND MORE INFORMATION ABOUT WACHOVIA FUNDING

We have filed with the SEC a registration statement on Form S-3 under the Securities Act, with respect to our Series A preferred securities. This prospectus, which forms a part of that registration statement, does not contain all the information set forth in the registration statement, certain portions of which have been omitted as permitted by the rules and regulations of the SEC. Statements contained in this prospectus as to the content of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. We refer you to the registration statement and its exhibits for further information regarding us and the Series A preferred securities offered by this prospectus.

The registration statement and its exhibits which were filed by us with the SEC can be inspected at, and copies can be obtained from, the SEC s public reference room, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Such material may also be accessed electronically by means of the SEC s home page on the Internet at http://www.sec.gov.

While we are a reporting company, we intend to file with the SEC and furnish to our shareholders annual reports containing audited consolidated financial statements certified by independent auditors and file with the SEC quarterly reports containing unaudited consolidated financial statements for the first three quarters of each fiscal year.

The SEC allows us to incorporate by reference into this prospectus the information in documents that we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and

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should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in case of a conflict or inconsistency between information with respect to us contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later. We incorporate by reference any documents we file with the SEC in the future under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until this offering is completed.

You may request a copy of our filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning us at the following address:

Wachovia Preferred Funding Corp.

1620 East Roseville Parkway

Roseville, California 95661

(877) 867-7378

WHERE YOU CAN FIND MORE INFORMATION ABOUT WACHOVIA

Wachovia has filed with the SEC a registration statement on Form S-3 under the Securities Act, with respect to the depositary shares representing an interest in the Wachovia Series G, Class A preferred stock. This prospectus, which forms a part of that registration statement, does not contain all the information set forth in the registration statement, certain portions of which have been omitted as permitted by the rules and regulations of the SEC. Statements contained in this prospectus as to the content of any contract or other document are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. Wachovia refers you to the registration statement and its exhibits for further information regarding Wachovia and the depositary shares representing an interest in the Wachovia Series G, Class A preferred stock.

Wachovia files annual quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document that Wachovia files at the SEC s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, Wachovia s SEC filings are available to the public at the SEC s web site at http://www.sec.gov. You can also inspect reports, proxy statements and other information about Wachovia at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York.

The SEC allows Wachovia to incorporate by reference into this prospectus the information in documents that Wachovia files with it. This means that Wachovia can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When Wachovia updates the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information with respect to Wachovia contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later. Wachovia incorporates by reference the documents listed below and any documents it files with the SEC in the future under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act until this offering is completed:

Description of Wachovia s capital stock under the heading Description of First Union Capital Stock contained in the Registration Statement on Form S-4, as amended (Registration Statement File No. 333-59616), as filed with the SEC on June 27, 2001;

Annual Report on Form 10-K for the year ended December 31, 2001;

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Quarterly Reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002; and

Current Reports on Form 8-K dated January 23, 2002, April 18, 2002, June 5, 2002, July 18, 2002, August 13, 2002, August 20, 2002, October 16, 2002 and November 20, 2002.

You may request a copy of these filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost, by writing to or telephoning Wachovia at the following address:

Corporate Relations

Wachovia Corporation

One Wachovia Center

301 South College Street

Charlotte, North Carolina 28288-0206

(704) 374-6782

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GLOSSARY

Code means the Internal Revenue Code of 1986, as amended.

commercial loan means a loan for commercial, financial, or industrial purposes, whether secured or unsecured, single-payment or installment.

commercial mortgage loan means a whole loan secured by a mortgage or deed of trust on a multi-family residential or commercial real estate property.

Conditional Exchange means the exchange of our Series A preferred securities for depositary shares representing Wachovia Series G, Class A preferred stock upon the issuance of an OCC directive after the occurrence of a Supervisory Event.

dividend payment date means each quarterly date upon which dividends are paid by us to the holders of the Series A preferred securities.

dividend period means any quarterly dividend period.

FFO means funds from operations on a consolidated basis and is equal to net income, plus depreciation of real or personal property used to generate income, less any gain on the sale of real estate plus any loss on the sale of real estate, all as calculated according to accounting principles generally accepted in the United States.

home equity loan means a fixed-rate, closed-end loan secured by residential real estate that can be in a first or second lien position.

Investment Company Act Event means our determination, based on the receipt by us of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance satisfactory to us, which states that there is a significant risk that we are or will be considered an investment company that is required to be registered under the Investment Company Act, as a result of the occurrence of a change in law or regulation or a written change in interpretation or application of law or regulation by any legislative body, court, governmental agency, or regulatory authority.

LIBOR means the London Interbank Offered Rate, which is the short-term rate of interest for United States dollar deposits overseas and is sometimes used as an index upon which loan interest rates are based.

Loan-to-Value Ratio means, with respect to any mortgage loan, the ratio (expressed as a percentage) of the original principal amount of such mortgage loan to the lesser of (a) the appraised value at origination of the mortgaged property underlying such mortgage loan and (b) if the mortgage loan was made to finance the acquisition of property, the purchase price of the mortgaged property.

mortgage-backed securities means securities either issued or guaranteed by agencies of the Federal government or government sponsored agencies or that are rated by at least one nationally recognized independent rating organization and that represent interests in or obligations backed by pools of mortgage loans.

mortgage loans means whole loans secured by single-family, one-to-four-unit, residential, multi-family residential, or commercial real estate properties.

One Hundred Persons Test means the Code requirement that our capital stock be owned by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year, other than the first 12 months.

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other authorized investments means non-mortgage-related securities authorized by Section 856(c)(5)(B) of the Code, in an amount which will not exceed 20% of the value of our total assets. Non-mortgage-related security is defined in the Investment Company Act. Under the Investment Company Act, the term security means, in part, any note, stock, treasury stock, debenture, evidence of indebtedness, or certificate of interest or participation in any profit sharing agreement or a group or index of securities.

Regulatory Capital Event means our determination, based on the receipt by us of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance satisfactory to us, which states that there is a significant risk that the Series A preferred securities will no longer constitute Tier 1 capital of the Bank or Wachovia for purposes of the capital adequacy guidelines or policies of the OCC or the Federal Reserve, or their respective successor as the Bank s and Wachovia s, respectively, primary federal banking regulator, as a result of:

any amendments to, clarification of, or change in applicable laws or related regulations or official interpretations or policies, or

any official administrative pronouncement or judicial decision interpreting or applying such laws or regulations.

REIT means a real estate investment trust as defined pursuant to Sections 856 through 860 of the Code, or any successor provisions of the Code, and the applicable Treasury regulations.

REIT taxable income means the taxable income of a REIT, which generally is computed in the same fashion as the taxable income of any corporation, except that (a) certain deductions are not available, such as the deduction for dividends received, (b) it may deduct dividends paid (or deemed paid) during the taxable year, (c) net capital gains and losses are excluded, and (d) certain other adjustments are made.

residential mortgage loan means a whole loan secured by a mortgage or deed of trust on a residential real estate property.

Special Event means

a Tax Event;

an Investment Company Event; or

a Regulatory Capital Event.

Supervisory Event means the occurrence of one of the following:

the Bank becomes undercapitalized under the OCC s prompt corrective action regulations;

- the Bank is placed into conservatorship or receivership; or

- the OCC, in its sole discretion, anticipates the Bank becoming undercapitalized in the near term or takes supervisory action that limits the payment of dividends by us and in connection therewith directs an exchange.

Tax Event means our determination, based on the receipt by us of an opinion of counsel, rendered by a law firm experienced in such matters, in form and substance satisfactory to us, which states that there is a significant risk that dividends paid or to be paid by us with respect to our capital stock are not or will not be fully deductible by us for United States Federal income tax purposes or that we are or will be subject to additional taxes, duties, or other governmental charges, in an amount we reasonably determine to be significant as a result of:

- any amendment to, clarification of, or change in, the laws, treaties, or related regulations of the United States or any of its political subdivisions or their taxing authorities affecting taxation, or

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any judicial decision, official administrative pronouncement, published or private ruling, technical advice memorandum, Chief Counsel Advice, as such term is defined in the Code, regulatory procedure, notice, or official announcement, which we refer to collectively as Administrative Actions ,

which amendment, clarification, or change is effective, or such official pronouncement or decision is announced, on or after the date of issuance of the Series A preferred securities.

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WACHOVIA PREFERRED FUNDING CORP. AND SUBSIDIARY

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2001, 2000 and 1999

(With Independent Auditors   Report Thereon)

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INDEPENDENT AUDITORS REPORT

Board of Directors

Wachovia Preferred Funding Corp.

We have audited the accompanying consolidated balance sheets of Wachovia Preferred Funding Corp. (a subsidiary of Wachovia Bank, National Association, which is a wholly-owned subsidiary of Wachovia Corporation) and subsidiary as of December 31, 2001 and 2000 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of Wachovia Preferred Funding Corp. s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wachovia Preferred Funding Corp. and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Charlotte, North Carolina

August 26, 2002

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In thousands, except share data)	**2001**	2000
ASSETS		
Cash and cash equivalents	**$ 957,454**	183,223
Loans, net of unearned income	**4,378,961**	558,756
Allowance for loan losses	**(37,158)**	(3,833)
Loans, net	**4,341,803**	554,923
Current income taxes receivable		7
Deferred income tax assets		1,196
Interest rate swaps	**573,620**	
Other assets	**16,789**	7,454
Total assets	**$ 5,889,666**	746,803
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Collateral held on interest rate swaps	**570,340**	
Current income taxes payable	**20,784**	
Deferred income tax liabilities	**124,112**	
Accounts payable affiliates	**9,359**	176
Other liabilities	**7,651**	107
Total liabilities	**732,246**	283
Stockholders equity		
Common stock, $0.01 par value, 100,000,000 shares authorized, 99,999,900 and 14,814,800 shares issued and outstanding in 2001 and 2000, respectively	**1,000**	148
Paid-in capital	**5,085,674**	652,069
Retained earnings	**70,746**	94,303
Total stockholders equity	**5,157,420**	746,520
Total liabilities and stockholders equity	**$ 5,889,666**	746,803

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2001, 2000 and 1999

(In thousands, except per share data and average shares)	2001	2000	1999
INTEREST INCOME	$ **68,179**	57,257	47,060
INTEREST EXPENSE	**857**		55
Net interest income	**67,322**	57,257	47,005
Provision for loan losses	**5,262**	3,602	1,034
Net interest income after provision for loan losses	**62,060**	53,655	45,971
OTHER INCOME			
Loss on interest rate swaps	**(95,890)**		
Other income		395	96
Total other income	**(95,890)**	395	96
NONINTEREST EXPENSE			
Loan servicing costs	**602**	1,383	1,890
Management fees		824	1,059
Other	**1,792**		129
Total noninterest expense	**2,394**	2,207	3,078
Income (loss) before income tax expense (benefit)	**(36,224)**	51,843	42,989
Income tax expense (benefit)	**(12,679)**	19,409	15,038
Net income (loss)	$ **(23,545)**	32,434	27,951
PER COMMON SHARE DATA			
Basic earnings (loss)	$ **(1.07)**	2.19	1.89
Diluted earnings (loss)	$ **(1.07)**	2.19	1.89
AVERAGE SHARES			
Basic	**21,925,904**	14,814,800	14,814,800
Diluted	**21,925,904**	14,814,800	14,814,800

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Years Ended December 31, 2001, 2000 and 1999

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 1998	$ 148	652,069	33,937	686,154
Net income			27,951	27,951
Cash dividends paid			(8)	(8)
Balance, December 31, 1999	148	652,069	61,880	714,097
Net income			32,434	32,434
Cash dividends paid			(11)	(11)
Balance, December 31, 2000	148	652,069	94,303	746,520
Net loss			**(23,545)**	**(23,545)**
Issuance of common stock in exchange for loans and interest rate swaps, net of deferred income tax liability of $177,029	**852**	**4,433,605**		**4,434,457**
Cash dividends paid			**(12)**	**(12)**
Balance, December 31, 2001	**$ 1,000**	**5,085,674**	**70,746**	**5,157,420**

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2001, 2000 and 1999

(In thousands)	2001	2000	1999
OPERATING ACTIVITIES			
Net income (loss)	**$ (23,545)**	32,434	27,951
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities			
Provision for loan losses	**5,262**	3,602	1,034
Current income taxes, net	**20,791**	(7)	(2,225)
Deferred income tax benefits	**(51,721)**	(799)	(107)
Loss on interest rate swaps	**95,890**		
Interest rate swaps and other assets, net	**(5,876)**	(1,724)	(1,271)
Accounts payable affiliates and other liabilities, net	**16,727**	283	(115)
Net cash provided by operating activities	**57,528**	33,789	25,267
INVESTING ACTIVITIES			
(Increase) decrease in loans, net	**146,375**	(46,952)	73,160
Net cash provided (used) by investing activities	**146,375**	(46,952)	73,160
FINANCING ACTIVITIES			
Increase (decrease) in cash realized from			
Collateral held on interest rate swaps	**570,340**		
Cash dividends paid	**(12)**	(11)	(8)
Net cash provided (used) by financing activities	**570,328**	(11)	(8)
Increase (decrease) in cash and cash equivalents	**774,231**	(13,174)	98,419
Cash and cash equivalents, beginning of year	**183,223**	196,397	97,978
Cash and cash equivalents, end of year	**$ 957,454**	183,223	196,397
CASH PAID FOR			
Interest	**$ 857**		55
Taxes	**18,250**	17,733	19,548
NONCASH ITEMS			
Commercial loans, net contributed in exchange for common stock, net of deferred income tax asset of $14,573	**3,953,090**		
	$ 481,367		

Receive-fixed interest rate swaps contributed in exchange for common stock, net of deferred income tax liability of $191,602			

See accompanying notes to consolidated financial statements.

WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2000 and 1999

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

General

Wachovia Preferred Funding Corp. (known prior to July 2002 as First Union Real Estate Asset Company of Connecticut) and its subsidiary (the Company), is a subsidiary of Wachovia Bank, National Association, formerly named First Union National Bank (the Parent Company), which is a wholly-owned subsidiary of Wachovia Corporation, formerly named First Union Corporation (Wachovia). The Company and its subsidiary invest in a variety of financial assets derived from lending and lending-related activities.

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. The more significant of these policies used in preparing the consolidated financial statements are described in this summary. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities used to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and interest-bearing bank balances. Generally, both cash and cash equivalents have maturities of three months or less, and accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value.

Loans

Loans are recorded at the principal balance outstanding, net of unearned income. Interest income is recognized on an accrual basis. Loan origination fees and direct costs as well as unearned premiums and discounts are amortized as an adjustment to the yield over the term of the loan.

A loan is considered to be impaired when based on current information, it is probable the Company will not receive all amounts due in accordance with the contractual terms of a loan agreement. Impaired loans are measured based on either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is also considered impaired if its terms are modified in a troubled debt restructuring.

When the ultimate collectibility of the principal balance of an impaired loan is in doubt, all cash receipts are applied to principal. Once the recorded principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent any interest has been foregone, and then they are recorded as recoveries of any amounts previously charged off.

The accrual of interest is generally discontinued on loans, except consumer loans, that become 90 days past due as to principal or interest unless collection of both principal and interest is assured by way of collateralization, guarantees or other security. Generally, loans past due 180 days or more are placed on nonaccrual status regardless of security. Consumer loans that become 120 days past due are generally charged to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the allowance for loan losses. When borrowers demonstrate over an extended period the ability to repay a loan in accordance with the contractual terms of a loan classified as nonaccrual, the loan is returned to accrual status.

On December 3, 2001, the Parent Company contributed commercial loans with a book value of $4.0 billion and a fair value of $3.7 billion to the Company in exchange for the issuance of common stock with a fair value of $3.7 billion and a related increase in paid-in capital of $300 million. The Parent Company and the Company are under common control and therefore the contributed commercial loans were recorded by the Company at their book value of $4.0 billion. The excess of the book value of the loans over the fair market value of the loans was recorded as an increase in paid-in capital.

Allowance For Loan Losses

The allowance for loan losses is maintained at a level that the Company believes is adequate to absorb probable losses. The Company employs a variety of tools as well as seasoned judgment in assessing the adequacy of the allowance. The Company s methodology for assessing the adequacy of the allowance establishes both an allocated and an unallocated component. The allocated component of the allowance for commercial loans is based principally on current loan grades and historical loss rates. For consumer loans, it is based on loan payment status and historical loss rates.

The unallocated component of the allowance represents the results of analyses that estimate probable losses inherent in the portfolio that are not fully captured in the allocated allowance. These analyses include industry concentrations, model imprecision and the estimated impact of current economic conditions on historical loss rates. The Company continuously monitors trends in loan portfolio qualitative and quantitative factors, including trends in the levels of past due, criticized and nonperforming loans. The trends in these factors are used to evaluate the reasonableness of the unallocated component.

The Company believes it has developed appropriate policies and processes in the determination of an allowance for loan losses reflective of the Company s assessment of credit risk after careful consideration of known relevant facts. In developing this assessment, the Company must necessarily rely on estimates and exercise judgments regarding matters where the ultimate outcome is unknown. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require increases or decreases in the allowance for loan losses at that time.

Comprehensive Income

The Company has no comprehensive income other than net income.

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as subsequently amended by SFAS 137 and SFAS 138, which establishes accounting and reporting standards for derivatives and hedging activities. Under SFAS 133, all derivatives (currently consisting of interest rate swaps) are recorded at fair value in the balance sheet. Realized and unrealized gains and losses are included as a gain (loss) on interest rate swaps.

On December 4, 2001, the Parent Company contributed receive-fixed interest rate swaps with a notional amount of $4.25 billion and a fair value of $673 million to the Company in exchange for common stock. After the contribution, the Company entered into pay-fixed interest rate swaps with a notional amount of $4.25 billion that serve as an economic hedge of the contributed swaps. All interest rate swaps are transacted with an unaffiliated third party.

At December 31, 2001, receive-fixed interest rate swaps with a notional amount of $4.25 billion had a weighted average maturity of 10.24 years, weighted average receive rate of 7.41 percent and weighted average

WACHOVIA PREFERRED FUNDING CORP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pay rate of 1.93 percent. Pay-fixed interest rate swaps with a notional amount of $4.25 billion had a weighted average maturity of 10.24 years, weighted average receive rate of 1.88 percent and weighted average pay rate of 5.69 percent at December 31, 2001. All of the interest rate swaps have variable pay or receive rates based on three- or six-month LIBOR, and they are the pay or receive rates in effect at December 31, 2001.

Collateral

Amounts recorded as collateral represent cash pledged to the Company by an unaffiliated counterparty to the interest rate swaps. Interest is paid at a market rate and is accounted for on an accrual basis.

Income Taxes

The Company s subsidiary, Wachovia Real Estate Investment Corp. (WREIC), is taxed as a real estate investment trust (REIT) and as such files its own separate federal income tax return. The Company calculates its provision for income tax expense (benefit) on a separate return basis, which is in accordance with Wachovia s policy on the allocation of income taxes. Through the year ended December 31, 2001, the Company filed as part of Wachovia s consolidated federal income tax return. Current federal income taxes are calculated for each consolidated subsidiary having taxable income and paid to Wachovia. Tax benefits, when applicable, are calculated for each consolidated subsidiary having a taxable loss, and they are remitted by Wachovia to the extent that tax benefits are realized from filing a consolidated federal income tax return. State income tax laws do not generally permit consolidated income tax returns; accordingly, applicable state income tax returns are filed for each of the companies.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For the tax year ending December 31, 2002, the Company will be taxed as a REIT and intends to comply with the relevant provisions of the Internal Revenue Code to be taxed as a REIT. Accordingly, the Company will not be subject to federal income tax to the extent it meets these provisions, including distributing the majority of its earnings to stockholders and as long as certain asset, income and stock ownership tests are met. As a result of the Company s change in tax status from a taxable corporation to a REIT, the Company s net deferred tax liability as of December 31, 2001, was written off as a benefit to income tax expense in January 2002. In addition, since the Company will be filing its own separate federal income tax return for the tax year 2002 and forward, it will no longer be part of Wachovia s federal consolidated income tax return or be subject to the allocation of the tax liability (benefit) of the consolidated group.

NOTE 2: LOANS

(In thousands)	2001	2000
COMMERCIAL		
Commercial and commercial real estate	**$ 3,990,356**	
CONSUMER		
Real estate mortgage	**110,258**	141,147
Home equity loans	**286,385**	417,706
Total loans	**4,386,999**	558,853
Unearned income	**8,038**	97
Total loans, net of unearned income	**$ 4,378,961**	558,756

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WACHOVIA PREFERRED FUNDING CORP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2001 and 2000, nonaccrual loans amounted to $5.0 million and $2.7 million, respectively. In 2001, 2000 and 1999, $141,000, $285,000 and $168,000, respectively, in gross interest income would have been recorded if all nonaccrual and restructured loans had been performing in accordance with their original terms and if they had been outstanding throughout the entire period, or since origination if held for part of the period. Interest collected on these loans and included in interest income in 2001, 2000 and 1999 amounted to $70,000, $68,000 and $100,000, respectively. Nonaccrual loans greater than $1 million are reviewed for impairment. At December 31, 2001 and 2000, all nonaccrual loans were each less than $1 million, and therefore, were not reviewed for impairment. Consequently, there were no impaired loans at December 31, 2001 and 2000.

NOTE 3: ALLOWANCE FOR LOAN LOSSES

(In thousands)	**2001**	2000	1999
Balance, beginning of year	**$ 3,833**	1,285	192
Provision for loan losses	**5,262**	3,602	1,034
Allowance related to loans contributed from the Parent Company	**33,681**		
Allowance related to loans transferred or sold	**(515)**	(673)	
Subtotal	**42,261**	4,214	1,226
Loan losses	**5,155**	422	(59)
Loan recoveries	**52**	41	
Loan losses, net	**5,103**	381	(59)
Balance, end of year	**$ 37,158**	3,833	1,285

NOTE 4: COMMON STOCK RECAPITALIZATION

In July 2002, the par value of the Company s common stock was changed from $1.00 to $0.01 per share. Each shareholder received 148,148 shares for each share held prior to the recapitalization. As a result of this recapitalization, common stock, paid-in capital, share and per share information for each period presented has been restated.

NOTE 5: INCOME TAX EXPENSE (BENEFIT)

The provision for income tax expense (benefit) for each of the years in the three-year period ended December 31, 2001, is presented below.

(In thousands)	2001	2000	1999
CURRENT INCOME TAX EXPENSE			
Federal	**$ 39,042**	19,889	15,145
State		319	
Total	**39,042**	20,208	15,145
DEFERRED INCOME TAX BENEFIT			
Federal	**(51,721)**	(799)	(107)
State			
Total	**(51,721)**	(799)	(107)
Total	**$ (12,679)**	19,409	15,038

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WACHOVIA PREFERRED FUNDING CORP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation of federal income tax rates and amounts with the effective income tax rates and amounts for each of the years in the three-year period ended December 31, 2001, is presented below.

	2001		2000		1999	
(In thousands)	**Amount**	**Percent of Pre-tax Income**	Amount	Percent of Pre-tax Income	Amount	Percent of Pre-tax Income
Income (loss) before income tax expense (benefit)	**$ (36,224)**		$ 51,843		$ 42,989	
Tax at federal income tax rate	**$ (12,678)**	**(35.0)%**	$ 18,145	35.0%	$ 15,046	35.0%
Reasons for differences in federal income tax rate and effective tax rate						
State income taxes, net			207	0.4		
Other	**(1)**		1,057	2.0	(8)	
Total	**$ (12,679)**	**(35.0)%**	$ 19,409	37.4%	$ 15,038	35.0%

The sources and tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities for each of the years in the three-year period ended December 31, 2001, are presented below.

(In thousands)	**2001**	2000	1999
DEFERRED INCOME TAX ASSETS			
Provision for losses, net	**$ 13,005**	1,342	366
Deferred loan fees	**2,785**		
Loans	**1,991**		83
Total deferred income tax assets	**17,781**	1,342	449
DEFERRED INCOME TAX LIABILITIES			
Interest rate swap contracts	**141,799**		
Other	**94**	146	52

Total deferred income tax liabilities	**141,893**	146	52
Net deferred income tax (liabilities) assets	**$ (124,112)**	1,196	397

A portion of the current year change in the net deferred tax liability relates to temporary differences on assets contributed to the Company by the Parent Company in 2001. The net increase to the deferred tax liability as a result of these asset contributions in 2001 is $177 million and has been recorded in the consolidated statements of changes in stockholders' equity as a component of paid-in capital.

The realization of net deferred tax assets may be based on utilization of carrybacks to prior taxable periods, anticipation of future taxable income in certain periods and the utilization of tax planning strategies. Management has determined that it is more likely than not that the net deferred tax asset can be supported by carrybacks to federal taxable income in the five-year federal carryback period and by expected future taxable income which will exceed amounts necessary to fully realize remaining deferred tax assets resulting from the scheduling of temporary differences.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the tax year ending December 31, 2002, the Company will be taxed as a REIT and intends to comply with the relevant provisions of the Internal Revenue Code to be taxed as a REIT. Accordingly, the Company will not be subject to federal income tax to the extent it meets these provisions, including distributing the majority of its earnings to stockholders and as long as certain asset, income and stock ownership tests are met. As a result of the Company s change in tax status from a taxable corporation to a REIT, the Company s net deferred tax liability as of December 31, 2001, was written off as a benefit to income tax expense in January 2002. In addition, since the Company will be filing its own separate federal income tax return for the tax year 2002 and forward, it will no longer be part of Wachovia s federal consolidated income tax return or be subject to the allocation of the tax liability (benefit) of the consolidated group.

The Internal Revenue Service (the IRS) is currently examining First Union Corporation s federal income tax returns for the years 1997 through 1999. In addition, in November 2001, the IRS issued reports related to the examination of First Union Corporation s 1994 through 1996 federal income tax returns. Although the amount of any ultimate liability with respect to such examinations cannot be determined, in the opinion of management, any such liability will not have a material impact on the Company s financial position or results of operations. In 1999, the IRS examination of First Union Corporation s federal income tax returns for the years 1991 through 1993 was settled with no significant impact on the Company s financial position or results of operations.

NOTE 6: TRANSACTIONS WITH AFFILIATED PARTIES

The Company, as a subsidiary, is subject to certain income and expense allocations from affiliated parties for various services received. In addition, the Company enters into transactions with affiliated parties in the normal course of business. The principal items related to transactions with affiliated parties included in the accompanying consolidated balance sheets and consolidated statements of operations are described below. Due to the nature of common ownership of the Company and the affiliated parties by Wachovia, the following transactions could differ from those conducted with unaffiliated parties.

Loan servicing costs paid to affiliates were $383,000 in 2001, $1.2 million in 2000 and $1.8 million in 1999. The Company is subject to Wachovia s management fee policy and therefore reimburses Wachovia for general overhead expenses paid on behalf of the Company by Wachovia. These overhead expenses include general accounting, tax accounting, legal, and balance sheet management services, along with officer salaries. Affiliates with greater than $10 million in assets and $2 million in estimated annualized expenses are assessed a management fee; if an affiliate does not meet both of these criteria, no management fee is allocated. If an affiliate qualifies for an allocation, the affiliate is assessed management fees based on its relative percentage of total consolidated assets and non-interest expense. We believe this allocation method represents a reasonable basis for allocating general overhead expenses. These expenses amounted to $824,000 in 2000 and $1.1 million in 1999. The Company did not meet the criteria for being assessed a management fee in 2001, and therefore no fee was charged.

At December 31, 2001 and 2000, noninterest-bearing cash deposits due from the Parent Company included in cash and cash equivalents were $161.4 million and $20.4 million, respectively. The Company also has interest-bearing cash deposits with the Parent Company. These cash deposits are the primary cash management vehicle of the Company. Excess funds are placed with the Parent Company; shortages of funds are borrowed from the Parent Company. Such cash deposits due from the Parent Company were $570 million (see collateral related to the interest rate swaps discussed below) at December 31, 2001, and $24.0 million at December 31, 2000. The related interest receivable was $857,000 at December 31, 2001. The related interest income for 2001, 2000 and 1999 was $4.1 million, $2.9 million and $1.1 million, respectively.

At December 31, 2001 and 2000, eurodollar investments due from an affiliate of the Parent Company included in cash and cash equivalents were $226 million and $139 million, respectively, and the related interest receivable was $11,000 and $76,000, respectively. Interest income earned on eurodollar investments included in interest income was $6.8 million in 2001, $14.1 million in 2000 and $7.9 million in 1999.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the funding provided by the deposits as noted above, intercompany payables and receivables are often used to record intercompany transactions in which cash cannot be settled on the same business day. These intercompany transactions are settled for cash within 30 days and no interest is charged due to the short-lived nature of the transaction. At December 31, 2001 and 2000, the Company had a net accounts payable due to affiliates of $9.4 million and $176,000, respectively. The average balance of amounts outstanding was a net receivable of $324,000 in 2001 and a net payable of $336,000 in 2000.

In 2001, the Company had loan participations with affiliates. The Company is allocated a portion of all income associated with these loans. The participations consist of commercial and consumer loans. Net loan participations were $4.0 billion at December 31, 2001, and the related interest receivable was $9.4 million. Interest income on loan participations was $12.5 million in 2001.

The Company has a swap servicing and fee agreement with the Parent Company, dated December 4, 2001, whereby the Parent Company provides operational, back office, book entry, record keeping and valuation services related to the Company s interest rate swaps. In consideration of these services, the Company pays the Parent Company 0.015 percent multiplied by the net amount actually paid under the interest rate swaps on the swaps payment date. Amounts paid under this agreement were less than $1,000 in 2001, and were included in interest expense.

The Parent Company acts as collateral custodian for the Company in connection with collateral pledged to the Company related to the interest rate swaps. For this service, the Company pays the Parent Company a fee equal to the sum of 0.05 percent multiplied by the fair market value of noncash collateral and 0.05 percent multiplied by the amount of cash collateral. Amounts paid under this agreement were $21,000 in 2001. In addition, the Parent Company is permitted to rehypothecate and use as its own the collateral held by the Parent Company as custodian for the Company. The Parent Company pays the Company a fee equal to the sum of 0.05 percent multiplied by the fair market value of the noncash collateral the Parent Company holds as custodian and the amount of cash collateral held multiplied by a market rate of interest. The collateral agreement with the counterparty allows the Company to repledge the collateral free of any right of redemption or other right of the counterparty in such collateral without any obligation on the Company s part to maintain possession or control of equivalent collateral. Pursuant to the rehypothecation agreement, the Company has deposited cash collateral of $570 million with the Parent Company. Amounts paid under this agreement were $857,000 in 2001, and were included in interest income.

The Parent Company also provides a guaranty of the Company s obligations under the interest rate swaps. In consideration, the Company pays the Parent Company a monthly fee in arrears equal to 0.03 percent multiplied by the absolute value of the net notional amount of the interest rate swaps. Amounts paid under this agreement were $975,000 in 2001, and were included in other noninterest expense.

NOTE 7: COMMITMENTS AND OTHER MATTERS

The Company s commercial loan portfolio includes unfunded loan commitments and standby and commercial letters of credit that are provided in the normal course of business. For commercial customers, loan commitments generally take the form of revolving credit arrangements to finance customers working capital requirements. These instruments are not recorded on the balance sheet until funds are advanced under the commitment. For lending commitments, the contractual amount of a commitment represents the maximum potential credit risk if the entire commitment is funded and the borrower does not perform according to the terms

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WACHOVIA PREFERRED FUNDING CORP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of the contract. A large majority of these commitments expire without being funded, and accordingly, total contractual amounts are not representative of actual future credit exposure or liquidity requirements.

Loan commitments and letters of credit create credit risk in the event that the counterparty draws on the commitment and subsequently fails to perform under the terms of the lending agreement. This risk is incorporated into an overall evaluation of credit risk, and to the extent necessary, reserves are recorded on these commitments. Uncertainties around the timing and amount of funding under these commitments may create liquidity risk.

The estimated fair value of commitments to extend credit at December 31, 2001, was $1.4 million. The contract or notional amount of commitments to extend credit at December 31, 2001, was $1.2 billion. The estimated fair value of standby and commercial letters of credit at December 31, 2001, was less than $1,000. The contract or notional amount of standby and commercial letters of credit at December 31, 2001, was $39 million. The fair value of commitments to extend credit and letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the current creditworthiness of the counterparties.

The Company and its subsidiary are not the subject of any litigation. The Company (including its subsidiary), Wachovia and the Parent Company are not currently involved in nor, to their knowledge, currently threatened with, any material litigation with respect to the assets included in the Company s portfolio, other than routine litigation arising in the ordinary course of business.

NOTE 8: CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Information about the fair value of on-balance sheet financial instruments at December 31, 2001 and 2000, is presented below.

	2001		2000	
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$ 957,454**	**957,454**	183,223	183,223
Loans, net of unearned income and allowance for loan losses	**4,341,803**	**4,037,965**	554,923	556,311
Interest rate swaps	**573,620**	**573,620**		
Other assets	**$ 16,789**	**16,789**	7,454	7,454
FINANCIAL LIABILITIES				

Collateral held on interest rate swaps	**570,340**	**570,340**		
Accounts payable affiliates and other liabilities	**$ 17,010**	**17,010**	283	283

The fair values of loans are calculated by discounting estimated cash flows through expected maturity dates using estimated market yields that reflect the credit and interest rate risks inherent in each category of loans and prepayment assumptions. Estimated fair values for the commercial loan portfolio were based on weighted average discount rates ranging from 3.60 percent to 7.65 percent and 6.97 percent to 8.54 percent at December 31, 2001 and 2000, respectively, and for the consumer portfolio from 5.39 percent to 10.40 percent and 7.00 percent to 9.67 percent, respectively.

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WACHOVIA PREFERRED FUNDING CORP.

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Consolidated Financial Statements

As of and For the Nine Months Ended September 30, 2002 and 2001

(Unaudited)

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WACHOVIA PREFERRED FUNDING CORP.

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

September 30, 2002 and 2001

(In thousands, except share data)	2002	2001
ASSETS		
Cash and cash equivalents	$ 1,169,380	327,057
Loans, net of unearned income	4,297,280	440,040
Allowance for loan losses	(37,335)	(5,655)
Loans, net	4,259,945	434,385
Deferred income tax assets		1,847
Interest rate swaps	605,438	
Accounts receivable affiliates	22,274	93
Other assets	14,049	11,657
Total assets	$ 6,071,086	775,039
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Collateral held on interest rate swaps	599,570	
Current income taxes payable		4,993
Other liabilities	7,368	89
Total liabilities	606,938	5,082
Stockholders equity		
Preferred Stock		
Series A preferred securities, $0.01 par value, $25.00 liquidation preference, non-cumulative and conditionally exchangeable, 30,000,000 shares authorized, none issued		
Series B preferred securities, $0.01 par value, $25.00 liquidation preference, non-cumulative and conditionally exchangeable, 40,000,000 shares authorized, none issued		
Series C preferred securities, $0.01 par value, $1,000 liquidation preference, cumulative, 5,000,000 shares authorized, none issued		
Series D preferred securities, $0.01 par value, $1,000 liquidation preference, non-cumulative, 913 shares authorized, issued and outstanding in 2002, none issued in 2001		
Common stock, $0.01 par value, 100,000,000 shares authorized, 99,999,900 shares issued and outstanding in 2002 and 14,814,800 shares in 2001	1,000	148
Paid-in capital	5,086,474	652,069

Retained earnings	**376,674**	117,740
Total stockholders equity	**5,464,148**	769,957
Total liabilities and stockholders equity	**$ 6,071,086**	775,039

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Nine Months Ended September 30, 2002 and 2001

(In thousands, except per share data and average shares)	2002	2001
INTEREST INCOME	$ 135,385	43,374
INTEREST EXPENSE	8,287	
Net interest income	127,098	43,374
Provision for loan losses	7,033	6,290
Net interest income after provision for loan losses	120,065	37,084
OTHER INCOME		
Gain on interest rate swaps	68,352	
Other income	4	
Total other income	68,356	
NONINTEREST EXPENSE		
Loan servicing costs	1,082	431
Management fees	4,371	
Other	1,144	582
Total noninterest expense	6,597	1,013
Income before income tax expense (benefit)	181,824	36,071
Income tax expense (benefit)	(124,112)	12,625
Net income	$ 305,936	23,446
PER COMMON SHARE DATA		
Basic earnings	$ 3.06	1.58
Diluted earnings	$ 3.06	1.58
AVERAGE SHARES		
Basic	99,999,900	14,814,800
Diluted	99,999,900	14,814,800

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

Nine Months Ended September 30, 2002 and 2001

(In thousands)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2001	$	1,000	5,085,674	70,746	5,157,420
Net income				**305,936**	**305,936**
Issuance of Series D preferred securities			**800**		**800**
Cash dividends paid				**(8)**	**(8)**
Balance, September 30, 2002	**$**	**1,000**	**5,086,474**	**376,674**	**5,464,148**

(In thousands)		Common Stock	Paid-in Capital	Retained Earnings	Total
Balance, December 31, 2000	$	148	652,069	94,303	746,520
Net income				23,446	23,446
Cash dividends paid				(9)	(9)
Balance, September 30, 2001	$	148	652,069	117,740	769,957

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30, 2002 and 2001

(In thousands)	2002	2001
OPERATING ACTIVITIES		
Net income	$ 305,936	23,446
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for loan losses	7,033	6,290
Current income taxes, net	(20,784)	5,000
Deferred income taxes, net	(124,112)	(651)
Interest rate swaps, net	(31,818)	
Accounts receivable affiliates and other assets, net	(19,534)	(4,296)
Accounts payable affiliates and other liabilities, net	(9,642)	(194)
Net cash provided by operating activities	107,079	29,595
INVESTING ACTIVITIES		
Decrease in loans, net	74,825	114,248
Net cash provided by investing activities	74,825	114,248
FINANCING ACTIVITIES		
Increase (decrease) in cash realized from		
Collateral held on interest rate swaps	29,230	
Issuance of preferred stock	800	
Cash dividends paid	(8)	(9)
Net cash used by financing activities	30,022	(9)
Increase in cash and cash equivalents	211,926	143,834
Cash and cash equivalents, beginning of period	957,454	183,223
Cash and cash equivalents, end of period	$ 1,169,380	327,057

See accompanying notes to consolidated financial statements.

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WACHOVIA PREFERRED FUNDING CORP.

AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2002 and 2001

NOTE 1: FINANCIAL STATEMENTS

Wachovia Preferred Funding Corp. (known prior to July 2002 as First Union Real Estate Asset Company of Connecticut) is a subsidiary of Wachovia Bank, National Association, formerly named First Union National Bank and its subsidiaries, which is a wholly-owned subsidiary of Wachovia Corporation.

The unaudited consolidated financial statements of Wachovia Preferred Funding Corp. include, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for fair presentation of such financial statements for the periods indicated in accordance with accounting principles generally accepted in the United States of America.

NOTE 2: INCOME TAX EXPENSE (BENEFIT)

For the tax year ending December 31, 2002, the Company will be taxed as a REIT and intends to comply with the relevant provisions of the Internal Revenue Code to be taxed as a REIT. Accordingly, with the exception of the income of its newly-formed taxable REIT subsidiary, Wachovia Preferred Realty, LLC (WPR), the Company will not be subject to Federal income tax on net income currently distributed to stockholders to the extent it meets these provisions, including distributing the majority of its earnings to stockholders and satisfying certain asset, income and stock ownership tests. As a result of the Company s change in tax status from a taxable corporation to a REIT, the Company s net deferred tax liability as of December 31, 2001, was written off as a benefit to income tax expense in January 2002. Due to the establishment of WPR in October 2002, a deferred tax expense will be recorded to establish the initial deferred tax liability on the book versus tax basis differences of the assets contributed to the subsidiary. In addition, the Company will incur Federal income tax to the extent of the earnings of WPR. Since the Company will be filing its own separate Federal income tax return for the year 2002 and forward, it will no longer be part of Wachovia s Federal consolidated income tax return or be subject to the allocation of the tax liability (benefit) of the consolidated group.

NOTE 3: PREFERRED SECURITIES AND COMMON STOCK RECAPITALIZATION

In 2002, the Company issued 913 shares of Series D preferred securities, $0.01 par value and $1,000 liquidation preference per security, to the Bank and 113 employees of Wachovia or its affiliates for cash.

At the same time, the par value of the Company s common stock was changed from $1.00 to $0.01 per share. Each shareholder received 148,148 shares for each share held prior to the recapitalization. As a result of this recapitalization, common stock and paid-in capital for each period presented, has been restated to reflect this change.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Financial Information

As of and For the Nine Months Ended September 30, 2002 and 2001 and

the Years Ended December 31, 2001 and 2000

(Unaudited)

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INDEPENDENT AUDITORS REPORT ON SUPPLEMENTARY

CONSOLIDATING FINANCIAL INFORMATION

The Board of Directors

Wachovia Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Wachovia Corporation and subsidiaries as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, and have issued our report thereon dated January 23, 2002. Our unqualified audit report on the consolidated financial statements of Wachovia Corporation and subsidiaries dated January 23, 2002, refers to the fact that effective July 1, 2001, Wachovia Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* and certain provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* as required for goodwill and intangible assets resulting from business combinations consummated after June 30, 2001.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of Wachovia Corporation and subsidiaries taken as a whole. The accompanying supplementary consolidating financial information as of and for the years ended December 31, 2001 and 2000, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. The supplementary consolidating financial information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

/s/ KPMG LLP

Charlotte, North Carolina

January 23, 2002

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

(Unaudited)

(In millions)	The Bank	Other Subsidiaries and Eliminations	Wachovia Consolidated
	September 30, 2002		
ASSETS			
Cash and due from banks	$ 13,236	(1,306)	11,930
Interest-bearing bank balances	688	2,873	3,561
Federal funds sold and securities purchased under resale agreements	3,858	3,274	7,132
Total cash and cash equivalents	17,782	4,841	22,623
Trading account assets	26,499	9,403	35,902
Securities	68,147	3,924	72,071
Loans, net of unearned income	163,767	(6,225)	157,542
Allowance for loan losses	(2,823)	(24)	(2,847)
Loans, net	160,944	(6,249)	154,695
Premises and equipment	3,186	2,236	5,422
Due from customers on acceptances	1,080		1,080
Goodwill	9,421	1,389	10,810
Intangible assets	1,869	(194)	1,675
Other assets	23,008	6,594	29,602
Total assets	$ 311,936	21,944	333,880
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits			
Noninterest-bearing deposits	32,759	11,427	44,186
Interest-bearing deposits	162,602	(19,003)	143,599
Total deposits	195,361	(7,576)	187,785
Short-term borrowings	28,578	12,568	41,146
Bank acceptances outstanding	1,093		1,093
Trading account liabilities	19,670	(1,910)	17,760
Other liabilities	13,830	403	14,233
Long-term debt	21,865	17,893	39,758
Total liabilities	280,397	21,378	301,775
STOCKHOLDERS' EQUITY			
Preferred stock		2	2

Common stock	455	4,122	4,577
Paid-in capital	24,930	(6,697)	18,233
Retained earnings	4,071	3,150	7,221
Accumulated other comprehensive income, net	2,083	(11)	2,072
Total stockholders' equity	31,539	566	32,105
Total liabilities and stockholders' equity	$ 311,936	21,944	333,880

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

	December 31, 2001				
(In millions)	**FUNB(a)**	**WBNA(a)**	**Combined**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
ASSETS					
Cash and due from banks	$ 10,660	3,765	14,425	(508)	13,917
Interest-bearing bank balances	6,638	651	7,289	(414)	6,875
Federal funds sold and securities purchased under resale agreements	5,188	167	5,355	8,564	13,919
Total cash and cash equivalents	22,486	4,583	27,069	7,642	34,711
Trading account assets	19,071	722	19,793	5,593	25,386
Securities	47,596	7,419	55,015	3,452	58,467
Loans, net of unearned income	123,754	46,997	170,751	(6,950)	163,801
Allowance for loan losses	(2,222)	(756)	(2,978)	(17)	(2,995)
Loans, net	121,532	46,241	167,773	(6,967)	160,806
Premises and equipment	2,628	921	3,549	2,170	5,719
Due from customers on acceptances	732	13	745		745
Goodwill	2,253	6,973	9,226	1,390	10,616
Intangible assets	336	2,018	2,354	(198)	2,156
Other assets	16,151	2,665	18,816	13,030	31,846
Total assets	$ 232,785	71,555	304,340	26,112	330,452
LIABILITIES AND STOCKHOLDERS' EQUITY					
Deposits					
Noninterest-bearing deposits	24,578	9,947	34,525	8,939	43,464
Interest-bearing deposits	123,171	36,364	159,535	(15,546)	143,989
Total deposits	147,749	46,311	194,060	(6,607)	187,453
Short-term borrowings	27,762	3,812	31,574	12,811	44,385
Bank acceptances outstanding	749	13	762		762
Trading account liabilities	15,559	634	16,193	(4,756)	11,437
Other liabilities	10,172	1,453	11,625	4,602	16,227
Long-term debt	14,661	5,661	20,322	21,411	41,733
Total liabilities	216,652	57,884	274,536	27,461	301,997

STOCKHOLDERS' EQUITY					
Preferred stock	161		161	(144)	17
Common stock	455	53	508	4,031	4,539
Paid-in capital	13,302	13,345	26,647	(8,736)	17,911
Retained earnings	1,847	210	2,057	3,494	5,551
Accumulated other comprehensive income, net	368	63	431	6	437
Total stockholders' equity	16,133	13,671	29,804	(1,349)	28,455
Total liabilities and stockholders' equity	$ 232,785	71,555	304,340	26,112	330,452

(a) "FUNB" refers to First Union National Bank, "WBNA" refers to the former Wachovia Bank, National Association.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Balance Sheet

	December 31, 2000		
(In millions)	FUNB(a)	Other Subsidiaries and Eliminations	Wachovia Consolidated
ASSETS			
Cash and due from banks	$ 10,052	(146)	9,906
Interest-bearing bank balances	3,207	32	3,239
Federal funds sold and securities purchased under resale agreements	6,010	5,230	11,240
Total cash and cash equivalents	19,269	5,116	24,385
Trading account assets	16,578	5,052	21,630
Securities	47,713	1,533	49,246
Loans, net of unearned income	131,252	(7,492)	123,760
Allowance for loan losses	(1,706)	(16)	(1,722)
Loans, net	129,546	(7,508)	122,038
Premises and equipment	2,849	2,175	5,024
Due from customers on acceptances	873	1	874
Goodwill	2,414	1,067	3,481
Intangible assets	377	(194)	183
Other assets	12,218	15,091	27,309
Total assets	$ 231,837	22,333	254,170
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits			
Noninterest-bearing deposits	21,074	9,241	30,315
Interest-bearing deposits	125,892	(13,539)	112,353
Total deposits	146,966	(4,298)	142,668
Short-term borrowings	36,990	2,456	39,446
Bank acceptances outstanding	879	1	880
Trading account liabilities	9,919	(2,444)	7,475
Other liabilities	8,310	4,235	12,545
Long-term debt	13,569	22,240	35,809
Total liabilities	216,633	22,190	238,823
STOCKHOLDERS' EQUITY			
Preferred stock	161	(161)	
Common stock	455	2,812	3,267

Paid-in capital	13,306	(7,034)	6,272
Retained earnings	1,467	4,554	6,021
Accumulated other comprehensive income, net	(185)	(28)	(213)
Total stockholders' equity	15,204	143	15,347
Total liabilities and stockholders' equity	$ 231,837	22,333	254,170

(a) "FUNB" refers to First Union National Bank.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Income

(Unaudited)

(In millions)	The Bank	Other Subsidiaries and Eliminations	Wachovia Consolidated
	Nine Months Ended September 30, 2002		
INTEREST INCOME			
Interest and fees on loans	$ 7,966	(208)	7,758
Interest and dividends on securities	2,579	118	2,697
Trading account interest	293	214	507
Other interest income	191	556	747
Total interest income	11,029	680	11,709
INTEREST EXPENSE			
Interest on deposits	2,648	(50)	2,598
Interest on borrowings	1,184	574	1,758
Total interest expense	3,832	524	4,356
Net interest income	7,197	156	7,353
Provision for loan losses	1,137	34	1,171
Net interest income after provision for loan losses	6,060	122	6,182
FEE AND OTHER INCOME			
Service charges and fees	1,498	488	1,986
Commissions	586	817	1,403
Fiduciary and asset management fees	497	873	1,370
Principal investing	(130)	(31)	(161)
Other income	2,011	(582)	1,429
Total fee and other income	4,462	1,565	6,027
NONINTEREST EXPENSE			
Salaries and employee benefits	3,104	1,812	4,916
Occupancy and equipment	999	276	1,275
Goodwill and other intangible amortization	477	4	481
Sundry expense	2,483	(515)	1,968
Total noninterest expense	7,063	1,577	8,640

Income before income taxes	3,459	110	3,569
Income taxes	816	69	885
Net income	2,643	41	2,684
Dividends on preferred stock		15	15
Net income available to common stockholders	$ 2,643	26	2,669

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Income

(Unaudited)

	Nine Months Ended September 30, 2001				
(In millions)	FUNB(a)	WBNA(a)	Combined	Other Subsidiaries and Eliminations	Wachovia Consolidated
INTEREST INCOME					
Interest and fees on loans	$ 7,602	3,112	10,714	(3,147)	7,567
Interest and dividends on securities	2,501	370	2,871	(213)	2,658
Trading account interest	415	3	418	176	594
Other interest income	252	32	284	686	970
Total interest income	10,770	3,517	14,287	(2,498)	11,789
INTEREST EXPENSE					
Interest on deposits	3,665	1,156	4,821	(1,193)	3,628
Interest on borrowings	2,019	528	2,547	271	2,818
Total interest expense	5,684	1,684	7,368	(922)	6,446
Net interest income	5,086	1,833	6,919	(1,576)	5,343
Provision for loan losses	1,395	629	2,024	(458)	1,566
Net interest income after provision for loan losses	3,691	1,204	4,895	(1,118)	3,777
FEE AND OTHER INCOME					
Service charges and fees	1,040	367	1,407	88	1,495
Commissions	518	80	598	522	1,120
Fiduciary and asset management fees	408	164	572	593	1,165
Principal investing	(260)	(4)	(264)	(422)	(686)
Other income	1,382	872	2,254	(1,112)	1,142
Total fee and other income	3,088	1,479	4,567	(331)	4,236
NONINTEREST EXPENSE					
Salaries and employee benefits	2,354	848	3,202	945	4,147
Occupancy and equipment	847	238	1,085	67	1,152
Goodwill and other intangible amortization	181	100	281	(9)	272
Sundry expense	1,815	829	2,644	(1,414)	1,230
Total noninterest expense	5,197	2,015	7,212	(411)	6,801

Income before income taxes	1,582	668	2,250	(1,038)	1,212
Income taxes	588	235	823	(494)	329
Net income	$ 994	433	1,427	(544)	883

(a) "FUNB" refers to First Union National Bank, "WBNA" refers to the former Wachovia Bank, National Association.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Income

	Year Ended December 31, 2001				
(In millions)	**FUNB(a)**	**WBNA(a)**	**Combined**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
INTEREST INCOME					
Interest and fees on loans	$ 9,856	3,905	13,761	(3,224)	10,537
Interest and dividends on securities	3,254	450	3,704	(170)	3,534
Trading account interest	505	3	508	252	760
Other interest income	311	43	354	915	1,269
Total interest income	13,926	4,401	18,327	(2,227)	16,100
INTEREST EXPENSE					
Interest on deposits	4,600	1,361	5,961	(1,217)	4,744
Interest on borrowings	2,461	616	3,077	504	3,581
Total interest expense	7,061	1,977	9,038	(713)	8,325
Net interest income	6,865	2,424	9,289	(1,514)	7,775
Provision for loan losses	1,767	638	2,405	(458)	1,947
Net interest income after provision for loan losses	5,098	1,786	6,884	(1,056)	5,828
FEE AND OTHER INCOME					
Service charges and fees	1,476	495	1,971	196	2,167
Commissions	577	142	719	849	1,568
Fiduciary and asset management fees	564	213	777	866	1,643
Principal investing	(351)	(4)	(355)	(352)	(707)
Other income	1,872	967	2,839	(1,214)	1,625
Total fee and other income	4,138	1,813	5,951	345	6,296
NONINTEREST EXPENSE					
Salaries and employee benefits	3,146	1,098	4,244	1,566	5,810
Occupancy and equipment	1,123	303	1,426	183	1,609
Goodwill and other intangible amortization	240	272	512	11	523
Sundry expense	2,528	929	3,457	(1,568)	1,889
Total noninterest expense	7,037	2,602	9,639	192	9,831

Income before income taxes	2,199	997	3,196	(903)	2,293
Income taxes	564	350	914	(240)	674
Net income	1,635	647	2,282	(663)	1,619
Dividends on preferred stock				6	6
Net income available to common stockholders	$ 1,635	647	2,282	(669)	1,613

(a) "FUNB" refers to First Union National Bank, "WBNA" refers to the former Wachovia Bank, National Association.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Income

	Year Ended December 31, 2000		
(In millions)	FUNB(a)	Other Subsidiaries and Eliminations	Wachovia Consolidated
INTEREST INCOME			
Interest and fees on loans	$ 11,840	(594)	11,246
Interest and dividends on securities	3,784	119	3,903
Trading account interest	417	403	820
Other interest income	225	1,340	1,565
Total interest income	16,266	1,268	17,534
INTEREST EXPENSE			
Interest on deposits	5,471	(202)	5,269
Interest on borrowings	3,357	1,471	4,828
Total interest expense	8,828	1,269	10,097
Net interest income	7,438	(1)	7,437
Provision for loan losses	1,057	679	1,736
Net interest income after provision for loan losses	6,381	(680)	5,701
FEE AND OTHER INCOME			
Service charges and fees	1,290	630	1,920
Fiduciary and asset management fees	1,017	494	1,511
Other income	1,620	1,661	3,281
Total fee and other income	3,927	2,785	6,712
NONINTEREST EXPENSE			
Salaries and employee benefits	3,132	2,527	5,659
Occupancy and equipment	1,130	362	1,492
Sundry expense	5,559	(1,000)	4,559
Total noninterest expense	9,821	1,889	11,710
Income before income taxes and cumulative effect of a change in accounting principle	487	216	703
Income taxes	428	137	565
Income before cumulative effect of a change in accounting principle	59	79	138

Cumulative effect of a change in the accounting for beneficial interests, net of income taxes	(46)		(46)
Net income	$ 13	79	92

(a) "FUNB" refers to First Union National Bank.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Changes in Stockholders Equity

(Unaudited)

	Nine Months Ended September 30, 2002		
(In millions)	**The Bank**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
PREFERRED STOCK			
Balance, December 31, 2001	$ 161	(144)	17
Changes incident to business combinations	(161)	161	
Cash dividends		(15)	(15)
Balance, September 30, 2002		2	2
COMMON STOCK			
Balance, December 31, 2001	455	4,084	4,539
Common stock issued for			
Stock options and restricted stock		33	33
Acquisitions		5	5
Balance, September 30, 2002	455	4,122	4,577
PAID-IN CAPITAL			
Balance, December 31, 2001	13,302	4,609	17,911
Common stock issued for			
Stock options and restricted stock		199	199
Acquisitions	11,628	(11,582)	46
Deferred compensation, net		77	77
Balance, September 30, 2002	24,930	(6,697)	18,233
RETAINED EARNINGS			
Balance, December 31, 2001	1,847	3,704	5,551
Net income	2,643	41	2,684
Changes incident to business combinations	210	(210)	
Cash dividends	(629)	(385)	(1,014)
Balance, September 30, 2002	4,071	3,150	7,221
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET			
Balance, December 31, 2001	368	69	437
	1,715	(80)	1,635

Net unrealized gain on debt and equity securities, net of reclassification adjustment and net unrealized gain on derivative financial instruments			
Balance, September 30, 2002	2,083	(11)	2,072
Total Stockholders Equity September 30, 2002	$ 31,539	566	32,105

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Changes in Stockholders Equity

(Unaudited)

	Nine Months Ended September 30, 2001				
(In millions)	**FUNB(a)**	**WBNA(a)**	**Combined**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
PREFERRED STOCK					
Balance, December 31, 2000 and September 30, 2001	$ 161		161	(161)	
COMMON STOCK					
Balance, December 31, 2000	455	51	506	2,761	3,267
Purchases of common stock				(102)	(102)
Common stock issued for					
Stock options and restricted stock				10	10
Dividend reinvestment plan				4	4
Acquisitions				1,358	1,358
Other		2	2	(2)	
Balance, September 30, 2001	455	53	508	4,029	4,537
PAID-IN CAPITAL					
Balance, December 31, 2000	13,306	2,305	15,611	(9,339)	6,272
Purchases of common stock				(125)	(125)
Common stock issued for					
Stock options and restricted stock				76	76
Dividend reinvestment plan				39	39
Acquisitions				11,640	11,640
Changes incident to business combinations	(4)	11,014	11,010	(11,010)	
Deferred compensation, net				(67)	(67)
Balance, September 30, 2001	13,302	13,319	26,621	(8,786)	17,835
RETAINED EARNINGS					
Balance, December 31, 2000	1,467	4,192	5,659	362	6,021
Net income	994	433	1,427	(544)	883
Purchases of common stock				(1,057)	(1,057)
Changes incident to business combinations	(5)	(4,629)	(4,634)	4,634	
Cash dividends	(1,250)		(1,250)	542	(708)
Balance, September 30, 2001	1,206	(4)	1,202	3,937	5,139

ACCUMULATED OTHER COMPREHENSIVE INCOME, NET					
Balance, December 31, 2000	(185)	31	(154)	(59)	(213)
Net unrealized gain on debt and equity securities, net of reclassification adjustment and net unrealized gain on derivative financial instruments	1,140	35	1,175	33	1,208
Balance, September 30, 2001	955	66	1,021	(26)	995
Total Stockholders Equity September 30, 2001	$ 16,079	13,434	29,513	(1,007)	28,506

(a) FUNB refers to First Union National Bank, WBNA refers to the former Wachovia Bank, National Association.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Changes in Stockholders Equity

	Year Ended December 31, 2001				
(In millions)	FUNB(a)	WBNA(a)	Combined	Other Subsidiaries and Eliminations	Wachovia Consolidated
PREFERRED STOCK					
Balance, December 31, 2000	$ 161		161	(161)	
Preferred shares issued				23	23
Cash dividends				(6)	(6)
Balance, December 31, 2001	161		161	(144)	17
COMMON STOCK					
Balance, December 31, 2000	455	51	506	2,761	3,267
Purchases of common stock				(103)	(103)
Common stock issued for					
Stock options and restricted stock				11	11
Dividend reinvestment plan				6	6
Acquisitions				1,358	1,358
Other		2	2	(2)	
Balance, December 31, 2001	455	53	508	4,031	4,539
PAID-IN CAPITAL					
Balance, December 31, 2000	13,306	2,305	15,611	(9,339)	6,272
Purchases of common stock				(124)	(124)
Common stock issued for					
Stock options and restricted stock				81	81
Dividend reinvestment plan				52	52
Acquisitions				11,453	11,453
Stock options issued in acquisition				187	187
Changes incident to business combinations	(4)	11,040	11,036	(11,036)	
Deferred compensation, net				(10)	(10)
Balance, December 31, 2001	13,302	13,345	26,647	(8,736)	17,911
RETAINED EARNINGS					
Balance, December 31, 2000	1,467	4,192	5,659	362	6,021
Net income	1,635	647	2,282	(663)	1,619
Purchases of common stock				(1,057)	(1,057)
Changes incident to business combinations	(5)	(4,629)	(4,634)	4,634	
Cash dividends	(1,250)		(1,250)	218	(1,032)

Balance, December 31, 2001	1,847	210	2,057	3,494	5,551
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET					
Balance, December 31, 2000	(185)	31	(154)	(59)	(213)
Net unrealized gain on debt and equity securities, net of reclassification adjustment and net unrealized gain on derivative financial instruments	553	32	585	65	650
Balance, December 31, 2001	368	63	431	6	437
Total Stockholders Equity December 31, 2001	$ 16,133	13,671	29,804	(1,349)	28,455

(a) FUNB refers to First Union National Bank, WBNA refers to the former Wachovia Bank, National Association.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Changes in Stockholders Equity

	Year Ended December 31, 2000		
(In millions)	**FUNB(a)**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
PREFERRED STOCK			
Balance, December 31, 1999 and December 31, 2000	$ 161	(161)	
COMMON STOCK			
Balance, December 31, 1999	455	2,839	3,294
Purchases of common stock		(63)	(63)
Common stock issued for			
Stock options and restricted stock		23	23
Dividend reinvestment plan		9	9
Acquisitions		4	4
Balance, December 31, 2000	455	2,812	3,267
PAID-IN CAPITAL			
Balance, December 31, 1999	13,306	(7,326)	5,980
Purchases of common stock		(79)	(79)
Common stock issued for			
Stock options and restricted stock		131	131
Dividend reinvestment plan		68	68
Acquisitions		30	30
Deferred compensation, net		142	142
Balance, December 31, 2000	13,306	(7,034)	6,272
RETAINED EARNINGS			
Balance, December 31, 1999	4,188	4,177	8,365
Net income	13	79	92
Purchases of common stock		(548)	(548)
Changes incident to business combinations	(234)	234	
Cash dividends	(2,500)	612	(1,888)
Balance, December 31, 2000	1,467	4,554	6,021
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET			
Balance, December 31, 1999	(975)	45	(930)
Net unrealized gain on debt and equity securities, net of reclassification adjustment	790	(73)	717
Balance, December 31, 2000	(185)	(28)	(213)
	$ 15,204	143	15,347

Total Stockholders Equity			
December 31, 2000			

(a) FUNB refers to First Union National Bank.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2002		
(In millions)	**The Bank**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
OPERATING ACTIVITIES			
Net income	$ 2,643	41	2,684
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Accretion and amortization of securities discounts and premiums, net	15	1	16
Provision for loan losses	1,137	34	1,171
Securitization gains	92	(334)	(242)
Gain on sale of mortgage servicing rights		(47)	(47)
Securities transactions	(193)	70	(123)
Depreciation, goodwill and other amortization	1,476	(245)	1,231
Trading account assets, net	(6,706)	(3,810)	(10,516)
Mortgage loans held for resale	(53)		(53)
(Gain) loss on sales of premises and equipment	6	(3)	3
Other assets, net	(9,971)	7,650	(2,321)
Trading account liabilities, net	3,477	2,846	6,323
Other liabilities, net	2,655	(4,188)	(1,533)
Net cash provided (used) by operating activities	(5,422)	2,015	(3,407)
INVESTING ACTIVITIES			
Increase (decrease) in cash realized from			
Sales of securities	21,352	1,657	23,009
Maturities of securities	8,816	1,561	10,377
Purchases of securities	(35,722)	(2,947)	(38,669)
Origination of loans, net	3,565	(610)	2,955
Sales of premises and equipment	116		116
Purchases of premises and equipment	(758)	399	(359)
Goodwill and other intangible assets, net	(187)	44	(143)
Purchase of bank-owned separate account life insurance	(147)		(147)
Net cash provided (used) by investing activities	(2,965)	104	(2,861)
FINANCING ACTIVITIES			
Increase (decrease) in cash realized from			
Purchases (sales) of deposits, net	1,301	(969)	332
Securities sold under repurchase agreements and other short-term borrowings, net	(1,471)	(1,768)	(3,239)
Issuances of long-term debt	717		717
Payments of long-term debt	(818)	(1,874)	(2,692)
Issuances of common stock		91	91
Cash dividends paid	(629)	(400)	(1,029)

Net cash used by financing activities	(900)	(4,920)	(5,820)
Decrease in cash and cash equivalents	(9,287)	(2,801)	(12,088)
Cash and cash equivalents, beginning of year	27,069	7,642	34,711
Cash and cash equivalents, end of year	$ 17,782	4,841	22,623
NONCASH ITEMS			
Transfer to securities from loans	$ 4,070		4,070
Transfer to securities from other assets	2,246		2,246
Transfer to other assets from loans, net	$ 1,851		1,851

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WACHOVIA CORPORATION AND SUBSIDIARIES

Consolidating Statement of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2001				
(In millions)	**FUNB(a)**	**WBNA(a)**	**Combined**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
OPERATING ACTIVITIES					
Net income	$ 994	433	1,427	(544)	883
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Accretion and amortization of securities discounts and premiums, net	147		147	1	148
Provision for loan losses	1,395	629	2,024	(458)	1,566
Securitization gains	(40)		(40)	(104)	(144)
Gain on sale of mortgage servicing rights				(56)	(56)
Securities transactions	(10)	(87)	(97)	148	51
Depreciation, goodwill and other amortization	1,028	338	1,366	(475)	891
Trading account assets, net	(3,976)	(346)	(4,322)	123	(4,199)
Mortgage loans held for resale	(577)		(577)		(577)
(Gain) loss on sales of premises and equipment	9	(3)	6		6
Other assets, net	(4,384)	(567)	(4,951)	3,913	(1,038)
Trading account liabilities, net	4,685	291	4,976	(2,367)	2,609
Other liabilities, net	1,997	610	2,607	(523)	2,084
Net cash provided (used) by operating activities	1,268	1,298	2,566	(342)	2,224
INVESTING ACTIVITIES					
Increase (decrease) in cash realized from					
Sales of securities	6,120	2,490	8,610	1,104	9,714
Maturities of securities	5,046		5,046	65	5,111
Purchases of securities	(8,908)		(8,908)	(2,934)	(11,842)
Origination of loans, net	2,329	2,438	4,767	(3,194)	1,573
Sales of premises and equipment	65		65		65
Purchases of premises and equipment	(790)	(338)	(1,128)	819	(309)
Goodwill and other intangible assets, net	(21)	(1,892)	(1,913)	1,827	(86)
Purchase of bank-owned separate account life insurance	(81)		(81)		(81)
Cash equivalents acquired, net of purchases of banking organizations				3,591	3,591
Net cash provided by investing activities	3,760	2,698	6,458	1,278	7,736
FINANCING ACTIVITIES					
Increase (decrease) in cash realized from					
Purchases (sales) of deposits, net	(6,206)	(47)	(6,253)	988	(5,265)
Securities sold under repurchase agreements and other short-term borrowings, net	(1,959)	(3,348)	(5,307)	2,056	(3,251)
Issuances of long-term debt	6,664		6,664	898	7,562
Payments of long-term debt	(5,698)	(284)	(5,982)	(3,817)	(9,799)
Sales of common stock				(67)	(67)
Purchases of common stock				(1,284)	(1,284)
Cash dividends paid	(1,250)		(1,250)	542	(708)

Net cash used by financing activities	(8,449)	(3,679)	(12,128)	(684)	(12,812)
Increase (decrease) in cash and cash equivalents	(3,421)	317	(3,104)	252	(2,852)
Cash and cash equivalents, beginning of year	19,269	4,326	23,595	790	24,385
Cash and cash equivalents, end of period	$ 15,848	4,643	20,491	1,042	21,533
NONCASH ITEMS					
Transfer to securities from loans	$ 95		95		95
Transfer to securities from other assets	908		908		908
Transfer to other assets from trading account assets	201		201		201
Transfer to other assets from loans, net	1,651		1,651		1,651
Issuance of common stock for purchase accounting merger	$			12,998	12,998

(a) FUNB refers to First Union National Bank, WBNA refers to the former Wachovia Bank, National Association.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Cash Flows

	Year Ended December 31, 2001				
(In millions)	**FUNB(a)**	**WBNA(a)**	**Combined**	**Other Subsidiaries and Eliminations**	**Wachovia Consolidated**
OPERATING ACTIVITIES					
Net income	$ 1,635	647	2,282	(663)	1,619
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Cumulative effect of a change in accounting principle	3		3	(3)	
Accretion and amortization of securities discounts and premiums, net	177		177	1	178
Provision for loan losses	1,767	638	2,405	(458)	1,947
Securitization gains	(20)		(20)	(262)	(282)
Gain on sale of mortgage servicing rights				(86)	(86)
Securities transactions	(38)	(87)	(125)	192	67
Depreciation, goodwill and other amortization	1,363	575	1,938	(549)	1,389
Deferred income taxes	58		58	(22)	36
Trading account assets, net	(2,694)	(347)	(3,041)	219	(2,822)
Mortgage loans held for resale	(1,311)		(1,311)		(1,311)
(Gain) loss on sales of premises and equipment	11	(3)	8	(3)	5
Other assets, net	(1,383)	(23)	(1,406)	2,843	1,437
Trading account liabilities, net	5,640	308	5,948	(1,986)	3,962
Other liabilities, net	697	500	1,197	(49)	1,148
Net cash provided (used) by operating activities	5,905	2,208	8,113	(826)	7,287
INVESTING ACTIVITIES					
Increase (decrease) in cash realized from					
Sales of securities	11,818	1,045	12,863	643	13,506
Maturities of securities	8,746		8,746	80	8,826
Purchases of securities	(15,990)		(15,990)	(2,639)	(18,629)
Origination of loans, net	1,599	4,873	6,472	(2,349)	4,123
Sales of premises and equipment	155		155		155
Purchases of premises and equipment	(1,068)	(408)	(1,476)	953	(523)
Goodwill and other intangible assets, net	(38)	(1,929)	(1,967)	1,852	(115)
Purchase of bank-owned separate account life insurance	(284)		(284)		(284)
Cash equivalents acquired, net of purchase acquisitions				3,591	3,591
Net cash provided by investing activities	4,938	3,581	8,519	2,131	10,650
FINANCING ACTIVITIES					
Increase (decrease) in cash realized from					
Purchases of deposits, net	783	120	903	736	1,639
Securities sold under repurchase agreements and other short-term borrowings, net	(8,137)	(5,332)	(13,469)	10,300	(3,169)
Issuances of long-term debt	7,435		7,435	1,903	9,338
Payments of long-term debt	(6,457)	(320)	(6,777)	(6,299)	(13,076)
Issuances of preferred shares				23	23
Issuances of common stock				(44)	(44)
Purchases of common stock				(1,284)	(1,284)
Cash dividends paid	(1,250)		(1,250)	212	(1,038)

Net cash provided (used) by financing activities	(7,626)	(5,532)	(13,158)	5,547	(7,611)
Increase in cash and cash equivalents	3,217	257	3,474	6,852	10,326
Cash and cash equivalents, beginning of year	19,269	4,326	23,595	790	24,385
Cash and cash equivalents, end of year	$ 22,486	4,583	27,069	7,642	34,711
CASH PAID FOR					
Interest	$ 7,609	1,778	9,387	(635)	8,752
Income taxes	672		672		672
NONCASH ITEMS					
Transfer to securities from loans	3,025		3,025		3,025
Transfer to securities from other assets	908		908		908
Transfer to other assets from trading account assets	201		201		201
Transfer to other assets from loans, net	1,643		1,643		1,643
Issuance of common stock for purchase accounting merger	$			12,998	12,998

(a) FUNB refers to First Union National Bank, WBNA refers to the former Wachovia Bank, National Association.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

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WACHOVIA CORPORATION AND SUBSIDIARIES

Supplementary Consolidating Statement of Cash Flows

(In millions)	FUNB(a)	Other Subsidiaries and Eliminations	Wachovia Consolidated
	Year Ended December 31, 2000		
OPERATING ACTIVITIES			
Net income	$ 13	79	92
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Cumulative effect of a change in accounting principle	46		46
Accretion and amortization of securities discounts and premiums, net	261	3	264
Provision for loan losses	1,057	679	1,736
Securitization gains	(265)		(265)
Loss on sale of mortgage servicing rights		2	2
Securities transactions	1,121	4	1,125
Depreciation, goodwill and other amortization	1,146	107	1,253
Goodwill impairments	1,754		1,754
Deferred income taxes	85	6	91
Trading account assets, net	(7,890)	1,206	(6,684)
Mortgage loans held for resale	381		381
Gain on sales of premises and equipment	(18)		(18)
Gain on sales of credit card and mortgage servicing portfolios	(969)	(39)	(1,008)
Other assets, net	8,112	(6,728)	1,384
Trading account liabilities, net	4,223	(317)	3,906
Other liabilities, net	1,498	2,340	3,838
Net cash provided (used) by operating activities	10,555	(2,658)	7,897
INVESTING ACTIVITIES			
Increase (decrease) in cash realized from			
Sales of securities	15,355	1,033	16,388
Maturities of securities	3,345	68	3,413
Purchases of securities	(7,386)	(975)	(8,361)
Origination of loans, net	(11,614)	2,280	(9,334)
Sales of premises and equipment	377	21	398
Purchases of premises and equipment	(865)	(19)	(884)
Goodwill and other intangible assets, net	177	(217)	(40)
Purchase of bank-owned separate account life insurance	(135)		(135)
Cash equivalents acquired, net of purchase acquisitions		3	3
Net cash provided (used) by investing activities	(746)	2,194	1,448
FINANCING ACTIVITIES			
Increase (decrease) in cash realized from			
Purchases (sales) of deposits, net	2,332	(711)	1,621
Securities sold under repurchase agreements and other short-term borrowings, net	(5,365)	(5,296)	(10,661)
Issuances of long-term debt	14,672	2,819	17,491
Payments of long-term debt	(12,949)	(713)	(13,662)
Issuances of common stock		152	152
Purchases of common stock		(690)	(690)
Cash dividends paid	(2,500)	612	(1,888)

Net cash used by financing activities	(3,810)	(3,827)	(7,637)
Increase (decrease) in cash and cash equivalents	5,999	(4,291)	1,708
Cash and cash equivalents, beginning of year	13,270	9,407	22,677
Cash and cash equivalents, end of year	$ 19,269	5,116	24,385
CASH PAID FOR			
Interest	$ 8,587	1,172	9,759
Income taxes	76	127	203
NONCASH ITEMS			
Transfer to securities from loans	9,342		9,342
Transfer to other assets from securities	1,335		1,335
Transfer to other assets from loans, net	7,901		7,901
Issuance of common stock for purchase accounting merger	$	34	34

(a) FUNB refers to First Union National Bank.

See accompanying Independent Auditors Report on Supplementary Consolidating Financial Information.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Through and including January 5, 2003 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

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18,000,000

Series A Preferred Securities

Wachovia Preferred Funding Corp.

Wachovia Securities

A.G. Edwards & Sons, Inc.

Banc of America Securities LLC

Merrill Lynch & Co.

Morgan Stanley

Prudential Securities

UBS Warburg

Bear Stearns & Co. Inc.

Credit Suisse First Boston

JPMorgan

Lehman Brothers

RBC Dain Rauscher

U.S. Bancorp Piper Jaffray

Wells Fargo Investment Services, LLC

December 11, 2002

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PART II OF REGISTRATION STATEMENT ON FORM S-3 OF WACHOVIA PREFERRED FUNDING CORP. AND WACHOVIA CORPORATION

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The estimated expenses of Wachovia Preferred Funding Corp. (Wachovia Funding) in connection with this offering, other than underwriting discounts and commissions, are as follows:

Registration Statement filing fee	$	34,500
Depositary s fees and expenses		0
Legal fees and expenses		780,000
Blue Sky fees and expenses		0
Accounting fees and expenses		75,000
Listing fees and expenses		150,000
Rating agency fees		0
Printing costs		200,000
Miscellaneous		10,500
Total	$	1,250,000

The estimated expenses of Wachovia Corporation (Wachovia) in connection with this offering, other than underwriting discounts and commissions, are as follows:

Registration Statement filing fee	$	0
Depositary s fees and expenses		5,000
Legal fees and expenses		0
Blue Sky fees and expenses		0
Accounting fees and expenses		0
Listing fees and expenses		0
Rating agency fees		0
Printing costs		0
Miscellaneous		5,000
Total	$	10,000

Item 15. Indemnification of Directors and Officers.

With respect to Wachovia Funding, Section 145 of the Delaware General Corporation Law (the DGCL) provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any threatened, pending or completed actions, suits or proceedings in which such person is made a party by reason of such person being or having been a director, officer, employee or agent of the corporation, subject to certain limitations. The statute provides that it is not exclusive of other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors or otherwise.

Section 102(b)(7) of the DGCL permits a corporation to provide in its charter that a director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability;

for any breach of the director s duty of loyalty to the corporation or its shareholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

for payments of unlawful dividends or unlawful stock purchases or redemptions; or

for any transaction from which the director derived an improper personal benefit.

Wachovia Funding s by-laws provide for the indemnification of Wachovia Funding s directors and executive officers by Wachovia Funding against liabilities arising out of their status as such. Wachovia Funding s certificate of incorporation provides for the elimination of the personal liability of each director of Wachovia Funding, to the fullest extent permitted by the provisions of the DGCL, as the same may from time to time be in effect.

Wachovia Funding maintains directors and officers liability insurance. In general, the policy insures (i) Wachovia Funding s directors and officers against loss by reason of any of their wrongful acts, and/or (ii) Wachovia Funding against loss arising from claims against the directors and officers by reason of their wrongful acts, all subject to the terms and conditions contained in the policy.

Under agreements which may be entered into by Wachovia Funding, certain controlling persons, directors and officers of Wachovia Funding may be entitled to indemnification by underwriters and agents who participate in the distribution of securities covered by the registration statement against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the Securities Act).

With respect to Wachovia, Sections 55-8-50 through 55-8-58 of the North Carolina Business Corporations Act (the NCBC Act) contain specific provisions relating to indemnification of directors and officers of North Carolina corporations. In general, the statute provides that (i) a corporation must indemnify a director or officer against reasonable expenses who is wholly successful in his defense of a proceeding to which he is a party because of his status as such, unless limited by the certificate of incorporation, and (ii) a corporation may indemnify a director or officer if he is not wholly successful in such defense, if it is determined as provided in the statute that the director or officer meets a certain standard of conduct, *provided* when a director or officer is liable to the corporation or liable on the basis of receiving a personal benefit, the corporation may not indemnify him. The statute also permits a director or officer of a corporation who is a party to a proceeding to apply to the courts for indemnification, unless the certificate of incorporation provides otherwise, and the court may order indemnification under certain circumstances set forth in the statute. The statute further provides that a corporation may in its certificate of incorporation or by-laws or by contract or resolution provide indemnification in addition to that provided by the statute, subject to certain conditions set forth in the statute.

Wachovia s by-laws provide for the indemnification of Wachovia s directors and executive officers by Wachovia against liabilities arising out of his status as such, excluding any liability relating to activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of Wachovia. Wachovia s certificate of incorporation provides for the elimination of the personal liability of each director of Wachovia, to the fullest extent permitted by the provisions of the NCBC Act, as the same may from time to time be in effect.

Wachovia maintains directors and officers liability insurance. In general, the policy insures (i) Wachovia s directors and officers against loss by reason of any of their wrongful acts, and/or (ii) Wachovia against loss arising from claims against the directors and officers by reason of their wrongful acts, all subject to the terms and conditions contained in the policy.

Under agreements which may be entered into by Wachovia, certain controlling persons, directors and officers of Wachovia may be entitled to indemnification by underwriters and agents who participate in the distribution of securities covered by the registration statement against certain liabilities, including liabilities under the Securities Act.

Item 16. Exhibits.

See Exhibit Index below.

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Item 17. Undertakings.

(a) The undersigned Registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by a Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act, each filing of each Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(5) That, for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by a Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrants pursuant to the foregoing provisions or otherwise (other than insurance), the Registrants have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than insurance or the payment by the Registrants of expenses incurred or paid by a director, officer or controlling person of the Registrants, in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in

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connection with the securities being registered, the Registrants will, unless in the opinion of their counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by them is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Additional Items

Wachovia Funding Sales to Special Parties.

See response to Recent Sales of Unregistered Securities of Wachovia Funding below.

Recent Sales of Unregistered Securities of Wachovia Funding.

In connection with a series of corporate transactions that occurred in July 2002, (i) Wachovia Funding issued and sold 913 shares of its Series D preferred securities, liquidation preference $1,000, to Wachovia Realty Management Corporation, a Delaware corporation and affiliate of Wachovia, for a purchase price of $913,000, and (ii) 99,851,752 and 148,148 shares of Wachovia Funding s common stock, par value $0.01 per share, were issued to Wachovia Bank, National Association, and Wachovia, respectively, as part of the merger of First Union Real Estate Asset Company of Connecticut, a Virginia corporation and affiliate of Wachovia, with and into Wachovia Funding in consideration of Wachovia Bank, National Association s and Wachovia s common stock of First Union Real Estate Asset Company of Connecticut. Each of these issuances and sales was made in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act. The Series D preferred securities are not convertible or exchangeable into any other security and Wachovia Funding does not anticipate that the Series D securities will be registered under the Securities Act. Wachovia Funding plans to use the proceeds from the issuance and sale of the common stock and Series D preferred securities for general corporate purposes.

Prior to this offering of Wachovia Funding s Series A preferred securities, liquidation preference $25.00 per security, Wachovia Preferred Funding Holding Corp., Wachovia Funding s holding company, will acquire (i) 30,000,000 of Wachovia Funding s Series A preferred securities, (ii) 40,000,000 of Wachovia Funding s Series B preferred securities, liquidation preference $25.00 per security, and (iii) 4,233,754 of Wachovia Funding s Series C preferred securities, liquidation preference $1,000 per security. The Series A, B and C preferred securities will be acquired by Wachovia Preferred Funding Holding Corp. in exchange for participations in commercial and commercial real estates loans with an aggregate fair market value of $6.0 billion. This issuance of Wachovia Funding s Series A (those not registered pursuant to this Registration Statement), B and C preferred securities will be made in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act. The Series A and B preferred securities are conditionally exchangeable, upon certain regulatory events, into preferred stock (or depositary shares representing such stock) of Wachovia.

Treatment of Proceeds of Stock Being Registered.

Not Applicable.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Wachovia Preferred Funding Corp. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Post-Effective Amendment No. 4 to Registration Statement No. 333-99847 to be signed on its behalf by the undersigned, thereunto duly authorized, in Charlotte, North Carolina, on the 23rd day of April, 2003.

WACHOVIA PREFERRED FUNDING CORP.

By:	/s/ ROSS E. JEFFRIES, JR.
Name:	**Ross E. Jeffries, Jr.**
Title:	**Senior Vice President and Assistant General Counsel**

Pursuant to the requirements of the Securities Act, this Post-Effective Amendment No. 4 to Registration Statement No. 333-99847 has been signed by the following persons in the capacities and on the date indicated.

Name	Title
G. KENNEDY THOMPSON*	President, Chief Executive Officer and Director
G. Kennedy Thompson	
ROBERT P. KELLY*	Senior Executive Vice President and
Robert P. Kelly	Chief Financial Officer
DAVID M. JULIAN*	Senior Vice President and Corporate Controller (Principal Accounting Officer)
David M. Julian	
JAMES E. ALWARD*	Director
James E. Alward	
JOEL J. GRIFFIN*	Director
Joel J. Griffin	
CHARLES F. JONES*	Director
Charles F. Jones	

* By: /s/ Ross E. Jeffries, Jr.,
Attorney-in-fact

Ross E. Jeffries, Jr.,
Attorney-in-fact

Dated: April 23, 2003

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Wachovia Corporation certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Post-Effective Amendment No. 4 to Registration Statement No. 333-99847 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, State of North Carolina, as of the 23rd day of April, 2003.

WACHOVIA CORPORATION

By: /s/ MARK C. TREANOR

Name: **Mark C. Treanor**
Title: **Senior Executive Vice President, Secretary and General Counsel**

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment No. 4 to Registration Statement No. 333-99847 has been signed by the following persons in the capacities and on the date indicated.

Name	**Capacity**
L.M. BAKER, JR.* **L.M. Baker, Jr.**	Chairman and Director
G. KENNEDY THOMPSON* **G. Kennedy Thompson**	President and Chief Executive Officer and Director
ROBERT P. KELLY* **Robert P. Kelly**	Senior Executive Vice President and Chief Financial Officer
DAVID M. JULIAN* **David M. Julian**	Senior Vice President and Corporate Controller (Principal Accounting Officer)
F. DUANE ACKERMAN* **F. Duane Ackerman**	Director
JOHN D. BAKER, II* **John D. Baker, II**	Director
JAMES S. BALLOUN*	Director

James S. Balloun	
ROBERT J. BROWN*	Director
Robert J. Brown	
PETER C. BROWNING*	Director
Peter C. Browning	
JOHN T. CASTEEN, III*	Director
John T. Casteen, III	
WILLIAM H. GOODWIN, JR.*	Director
William H. Goodwin, Jr.	

Name	Capacity
ROBERT A. INGRAM* **Robert A. Ingram**	Director
MACKEY J. MCDONALD* **Mackey J. McDonald**	Director
JOSEPH NEUBAUER* **Joseph Neubauer**	Director
LLOYD U. NOLAND, III* **Lloyd U. Noland, III**	Director
RUTH G. SHAW* **Ruth G. Shaw**	Director
LANTY L. SMITH* **Lanty L. Smith**	Director
JOHN C. WHITAKER, JR.* **John C. Whitaker, Jr.**	Director
DONA DAVIS YOUNG* **Dona Davis Young**	Director

* By /s/ MARK C. TREANOR, Attorney-in-fact

Mark C. Treanor, Attorney-in-fact

Dated: April 23, 2003

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