SUNTRUST BANKS INC
Form 10-K
February 25, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

2010 FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-08918

SUNTRUST BANKS, INC.

(Exact name of registrant as specified in its charter)

Georgia	**58-1575035**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

303 Peachtree Street, N.E., Atlanta, Georgia 30308

(Address of principal executive offices) (Zip Code)

(404) 588-7711

(Registrant s telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of exchange on which registered

Common Stock	New York Stock Exchange
Depository Shares, Each Representing 1/4000th Interest in a Share of Perpetual Preferred Stock, Series A	New York Stock Exchange
7.875% Trust Preferred Securities of SunTrust Capital IX	New York Stock Exchange
6.100% Trust Preferred Securities of SunTrust Capital VIII	New York Stock Exchange
5.853% Fixed-to Floating Rate Normal Preferred Purchase Securities of SunTrust Preferred Capital I	New York Stock Exchange
Guarantee of 7.70% Trust Preferred Securities of National Commerce Capital Trust II	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2010 was approximately $11.6 billion, based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

At February 7, 2011, 500,491,137 shares of the Registrant s Common Stock, $1.00 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to Instruction G of Form 10-K, information in the Registrant s Definitive Proxy Statement for its 2011 Annual Shareholder s Meeting, which it will file with the SEC no later than April 26, 2011 (the Proxy Statement), is incorporated by reference into Items 10-14 of this Report.

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GLOSSARY OF DEFINED TERMS

ABS Asset-backed securities.

AFS Available for sale.

ALCO Asset/Liability Management Committee.

ALLL Allowance for loan and lease losses.

Alt-A Alternative A-paper.

AOCI Accumulated other comprehensive income.

ARM Adjustable rate mortgages.

ARRA The American Reinvestment and Recovery Act of 2009.

ARS Auction rate securities.

ASC FASB Accounting Standard Codification.

ASU Accounting standards update.

ATE Additional termination event.

ATM Automated teller machine.

Bank SunTrust Bank.

BCBS Basel Committee on Banking Supervision.

Board The Company s Board of Directors.

CDO Collateralized debt obligation.

CD Certificate of deposit.

CDS Credit default swaps.

CFPB Bureau of Consumer Financial Protection.

CIB Corporate and Investment Banking.

Class B shares Visa Inc. Class B common stock.

CLO Collateralized loan obligation.

CMBS Commercial mortgage-backed securities.

Coke The Coca-Cola Company.

Company SunTrust Banks, Inc.

CORO Corporate Operational Risk Officer.

CP Commercial paper.

CPP Capital Purchase Program.

CRA Community Reinvestment Act of 1977.

CRC Corporate Risk Committee.

CRE Commercial Real Estate.

CRO Chief Risk Officer.

CRM Corporate Risk Management.

CSA Credit support annex.

DDA Demand deposit account.

DBRS Dun and Bradstreet, Inc.

DGP Debt Guarantee Program.

DIF Deposit Insurance Fund.

Dodd-Frank Act The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

EAPMC Earning Asset/Portfolio Management Committee.

EESA The Emergency Economic Stabilization Act of 2008.

EPS Earnings per share.

ERISA Employee Retirement Income Security Act of 1974.

EURIBOR Euro Interbank Offered Rate.

Exchange Act Securities Exchange Act of 1934.

FASB Financial Accounting Standards Board.

FDIA Federal Deposit Insurance Act.

FDIC The Federal Deposit Insurance Corporation.

FDICIA The Federal Deposit Insurance Corporation Improvement Act of 1991.

Federal Reserve The Board of Governors of the Federal Reserve System.

Fed funds Federal funds.

FFELP Federal Family Education Loan Program.

FFIEC The Federal Financial Institutions Examination Council.

FHA Federal Housing Administration.

FHLB Federal Home Loan Bank.

FICO Fair Isaac Corporation.

FINRA Financial Industry Regulatory Authority.

Fitch Fitch Ratings Ltd.

FTE Fully taxable-equivalent.

First Mercantile First Mercantile Trust Company.

FVO Fair value option.

GB&T GB&T Bancshares, Inc.

GBP Great Britain Pound.

GenSpring GenSpring Family Offices, LLC.

GLB Act Gramm-Leach-Bliley Act.

GSE Government-sponsored enterprise.

HUD U.S. Department of Housing and Urban Development.

IIS Institutional Investment Solutions.

Inlign Inlign Wealth Management, LLC.

IPO Initial public offering.

IRLC Interest rate lock commitments.

IRS Internal Revenue Service.

ISDA International Swaps and Derivatives Associations Master Agreement.

LCR Liquidity coverage ratio.

Lehman Brothers Lehman Brothers Holdings, Inc.

LHFI Loans held for investment.

LHFI-FV Loans held for investment carried at fair value.

LHFS Loans held for sale.

LIBOR London InterBank Offered Rate.

Lighthouse Investment Partners Lighthouse Investment Partners, LLC.

LOCOM Lower of cost or market.

LTI Long-term incentive.

LTV Loan to value.

MBS Mortgage-backed securities.

MD&A Management s Discussion and Analysis of Financial Condition and Results of Operations.

MIP Management Incentive Plan.

MMMF Money market mutual funds.

Moody s Moody s Investors Service.

MSR Mortgage servicing right.

MVE Market value of equity.

NCF National Commerce Financial Corporation.

NOL Net operating loss.

NOW Negotiable order of withdrawal account.

NPL Nonperforming loan.

NRSRO Nationally Recognized Statistical Rating Organization.

NSF Non-sufficient funds.

NSFR Net stable funding ratio.

NYSE New York Stock Exchange.

OCI Other comprehensive income.

OREO Other real estate owned.

OTC Over-the-counter.

OTTI Other-than-temporary impairment.

Parent Company Parent Company of SunTrust Banks, Inc.

Patriot Act The USA Patriot Act of 2001.

PUP Performance Unit Plan.

PWM Private Wealth Management.

QSPE Qualifying special-purpose entity.

RCCs Replacement capital covenants.

REITs Real estate investment trusts.

RidgeWorth RidgeWorth Capital Management, Inc.

RMBS Residential mortgage-backed securities.

ROA Return on average total assets.

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ROE Return on average common shareholders equity.

S&P Standard and Poor s.

SBA Small Business Administration.

SCAP Supervisory Capital Assessment Program.

SEC U.S. Securities and Exchange Commission.

Seix Seix Investment Advisors, Inc.

SEO Senior executive officers.

SERP Supplemental Executive Retirement Plan.

SIV Structured investment vehicles.

SPE Special purpose entity.

STIIA SunTrust Institutional Investment Advisors LLC.

STIS SunTrust Investment Services, Inc.

STM SunTrust Mortgage, Inc.

Stock Plan SunTrust Banks, Inc. 2004 Stock Plan.

STRH SunTrust Robinson Humphrey, Inc.

SunTrust SunTrust Banks, Inc.

SunTrust Community Capital SunTrust Community Capital, LLC.

TAGP Transaction Account Guarantee Program.

TARP Troubled Asset Relief Program.

TDR Troubled debt restructuring.

The Agreements Equity forward agreements.

Three Pillars Three Pillars Funding, LLC.

TransPlatinum TransPlatinum Service Corp.

TRS Total return swaps.

Twin Rivers Twin Rivers Insurance Company.

U.S. GAAP Generally Accepted Accounting Principles in the United States.

U.S. Treasury The United States Department of the Treasury.

UTB Unrecognized tax benefits.

VA Veteran s Administration.

VAR Value at risk.

VEBA Voluntary Employees Beneficiary Association.

VI Variable interest.

VIE Variable interest entity.

Visa The Visa, U.S.A. Inc. card association or its affiliates, collectively.

VRDO Variable rate demand obligation.

W&IM Wealth and Investment Management.

ZCI Zevenbergen Capital Investments, LLC.

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PART I

Item 1. BUSINESS
General

The Company, one of the nation s largest commercial banking organizations, is a diversified financial services holding company whose businesses provide a broad range of financial services to consumer and corporate clients. SunTrust was incorporated in 1984 under the laws of the State of Georgia. The principal executive offices of the Company are located in the SunTrust Plaza, Atlanta, Georgia 30308.

Additional information relating to our businesses and our subsidiaries is included in the information set forth in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 22, Business Segment Reporting, to the Consolidated Financial Statements in Item 8 of this report.

Primary Market Areas

Through its principal subsidiary, SunTrust Bank, the Company provides deposit, credit, and trust and investment services. Additional subsidiaries provide mortgage banking, asset management, securities brokerage, capital market services, and credit-related insurance. SunTrust operates primarily within Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia and enjoys strong market positions in these markets. SunTrust operated under the following business segments during 2009 and in the first quarter of 2010. These business segments were: Retail and Commercial, CIB, Household Lending, W&IM, and Corporate Other and Treasury. The Company announced certain organizational changes at the end of the first quarter of 2010, which became effective in the second quarter of 2010 and resulted in the following business segments: Retail Banking, Diversified Commercial Banking, CRE, CIB, Mortgage, W&IM, and Corporate Other and Treasury. In addition, SunTrust provides clients with a selection of technology-based banking channels, including the internet, ATMs, and twenty-four hour telebanking. SunTrust s client base encompasses a broad range of individuals and families, businesses, institutions, and governmental agencies.

Acquisition and Disposition Activity

As part of its operations, the Company regularly evaluates the potential acquisition of, and holds discussions with, various financial institutions and other businesses of a type eligible for financial holding company ownership or control. In addition, the Company regularly analyzes the values of, and may submit bids for, the acquisition of customer-based funds and other liabilities and assets of such financial institutions and other businesses. The Company may also consider the potential disposition of certain of its assets, branches, subsidiaries or lines of businesses.

During 2010, the Company s W&IM business transferred $14.1 billion in money market funds into funds managed by Federated Investors, Inc. During 2009, W&IM completed three acquisitions of family office enterprises: Epic Advisors, Inc; a division of CSI Capital Management; and Martin Kelly Capital Management LLC. We completed the sale of our minority interest in Lighthouse Investment Partners on January 2, 2008, and effective May 1, 2008, we acquired GB&T. On May 30, 2008, we sold our interests in First Mercantile, a retirement plan services subsidiary. Moreover, on September 2, 2008, we sold our fuel card business, TransPlatinum, to Fleet One Holdings LLC. Additional information on these and other acquisitions and dispositions is included in Note 2, Acquisitions/Dispositions, to the Consolidated Financial Statements in Item 8, which are incorporated herein by reference.

Government Supervision and Regulation

As a bank holding company and a financial holding company, the Company is subject to the regulation and supervision of the Federal Reserve and, in limited circumstances described herein, the U.S. Treasury. The Company s principal banking subsidiary, SunTrust Bank, is a Georgia state chartered bank with branches in Georgia, Florida, the District of Columbia, Maryland, Virginia, North Carolina, South Carolina, Tennessee, Alabama, West Virginia, Mississippi, and Arkansas. SunTrust Bank is a member of the Federal Reserve System, and it is regulated by the Federal Reserve, the FDIC and the Georgia Department of Banking and Finance.

The Company s banking subsidiary is subject to various requirements and restrictions under federal and state law, including requirements to maintain cash reserves against deposits, restrictions on the types and amounts of loans that may be made and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank and its subsidiaries. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act imposes new regulatory requirements and oversight over banks and other financial institutions in a number of ways, among which are (i) creating of the CFPB to regulate consumer financial products and services; (ii) creating of the Financial Stability Oversight Council to identify and impose additional regulatory oversight on large financial firms; (iii) granting orderly liquidation authority to the FDIC for the liquidation of financial corporations that pose a risk to the financial system of the U.S.; (iv) limiting debit card interchange fees; (v) adopting certain changes to shareholder rights and responsibilities, including a shareholder say on pay vote on executive compensation; (vi) strengthening the SEC s powers to regulate securities markets; (vii) regulating OTC derivative markets; (viii) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and (ix) amending the Truth in Lending Act with respect to mortgage originations, including originator compensation, minimum repayment standards, and prepayment considerations. These changes have profoundly impacted our policies and procedures and will likely continue to do so as regulators adopt enacted regulations going forward in accordance with the time table for enacting regulations set forth in the Dodd-Frank Act.

In addition, there have been a number of legislative and regulatory proposals that would have an impact on the operation of bank/financial holding companies and their bank and non-bank subsidiaries. We cannot predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on us.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or is in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the cross-guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized as such terms are defined under regulations issued by each of the federal banking agencies. Under the Dodd-Frank Act, the FDIC has the authority to liquidate certain financial holding companies that are determined to pose significant risks to the financial stability of the U.S. (covered financial companies). Under this scenario, the FDIC would exercise broad powers to take prompt corrective action to resolve problems with the covered financial company. Details of this process, and the rights of shareholders and creditors of covered financial companies, are currently being formulated. The FDIC may make risk-based assessments of all bank holding companies with total consolidated assets greater than $50 billion to recover losses incurred by the FDIC in exercising its authority to liquidate covered financial companies.

The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The Federal Reserve risk-based guidelines define a tier-based capital framework. Tier 1 capital includes common shareholders equity, trust preferred securities, minority interests and qualifying preferred stock, less goodwill (net of any qualifying deferred tax liability) and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatorily convertible debt, limited amounts of subordinated debt, other qualifying term debt, the allowance for credit losses up to a certain amount and a portion of the unrealized gain on equity securities. The sum of Tier 1 and Tier 2 capital represents the Company s qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. In addition, the Company, and any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations. The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Under the Dodd-Frank Act, trust preferred securities that formerly constituted Tier 1 capital will no longer be included in Tier 1 capital after a three-year phase-in period which begins January 1, 2013. Moreover, capital requirements for bank holding companies and banks change frequently and these changes are often linked to decisions made by the BCBS of the Bank for International Settlements. Capital requirements applicable to bank holding companies and banks may increase in the near-future as a result of the Dodd-Frank Act and initiatives of the BCBS.

FDICIA, among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality, and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well capitalized institution must have a Tier 1 risk-based capital ratio of at least six percent, a total risk-based capital ratio of at least ten percent and a leverage ratio of at least five percent and not be subject to a capital directive order.

Regulators also must take into consideration: (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution s assets does not match the sensitivity of its liabilities or its off-balance sheet position); and (c) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation will be made as a part of the institution s regular safety and soundness examination. In addition, regulators may choose to examine other factors in order to evaluate the safety and soundness of financial institutions. For instance, in connection with the SCAP, our regulators began focusing on Tier 1 common equity, which is the proportion of Tier 1 capital that is common equity, and the Tier 1 common equity ratio continues to be a factor which regulators examine in evaluating the safety and soundness of financial institutions.

Capital Framework and Basel III

In December 2009, the BCBS issued two consultative documents proposing reforms to bank capital and liquidity regulation. The BCBS s capital proposals would significantly revise the definitions of Tier 1 capital and Tier 2 capital.

The Basel III capital framework, among other things:

- introduces as a new capital measure Tier 1 Common Equity, specifies that Tier 1 capital consists of Tier 1 Common Equity and Additional Tier 1 capital instruments meeting specified requirements, defines Tier 1 Common Equity narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to Tier 1 Common Equity and not to the other components of capital, and expands the scope of the deductions or adjustments as compared to existing regulations;
- when fully phased in on January 1, 2019, requires banks to maintain:
  - as a newly adopted international standard, a minimum ratio of Tier 1 Common Equity to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% Tier 1 Common Equity ratio as that buffer is phased in, effectively resulting in a minimum ratio of Tier 1 Common Equity to risk-weighted assets of at least 7%);

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- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);
- a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and
- as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and

provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a Tier 1 Common Equity add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Tier 1 Common Equity to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) may face constraints on dividends, equity repurchases and compensation.

The implementation of the Basel III final framework will commence January 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios before the application of any buffer:

3.5% Tier 1 Common Equity to risk-weighted assets;
4.5% Tier 1 capital to risk-weighted assets; and
8.0% Total capital to risk-weighted assets.

The Basel III final framework provides for a number of new deductions from and adjustments to Tier 1 Common Equity. These include, for example, the requirement that MSRs, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from Tier 1 Common Equity to the extent that any one such category exceeds 10% of Tier 1 Common Equity or all such categories in the aggregate exceed 15% of Tier 1 Common Equity.

Implementation of the deductions and other adjustments to Tier 1 Common Equity will begin on January 1, 2014 and will be phased in over a five-year period (20% per year). The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid 2011 with final adoption of implementing regulations in mid 2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions, which we expect will apply to us. In addition to Basel III, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. We believe our current capital levels already exceed the Basel III capital requirement, including the capital conservation buffer. The BCBS has also stated that from time to time it may require an additional, counter-cyclical capital buffer on top of Basel III standards. We intend to comply with those requirements when announced as they may apply to us.

Liquidity Ratios under Basel III

Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the LCR, is designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the NSFR, is designed to promote more medium and long-term funding based on the liquidity characteristics of the assets and activities of banking entities over a one-year time horizon. In order to comply with these requirements, banks will take a number of actions which may include increasing their asset holdings of U.S. Treasury securities and other sovereign debt, increasing the use of long-term debt as a funding source and adopting new business practices that may limit the provision of liquidity to clients. The LCR would be implemented subject to an observation period beginning in 2011, but would not be introduced as a requirement until January 1, 2015, and the NSFR would not be introduced as a requirement until January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation.

Other Regulation

There are various legal and regulatory limits on the extent to which the Company s subsidiary bank may pay dividends or otherwise supply funds to the Company. In addition, federal and state bank regulatory agencies also have the authority to prevent a bank or bank holding company from paying a dividend or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice. The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

The FDIC maintains the DIF by assessing depository institutions an insurance premium. The amount each institution is assessed is based upon statutory factors that include the average balance of insured deposits as well as the degree of risk the institution poses to the insurance fund. Pursuant to the Dodd Frank Act, the FDIC is in the process of revising its methodology for assessing insurance premiums. In 2011, we expect that the FDIC will assess deposit insurance premiums on the basis of a depository institution s average consolidated net assets and not its deposits. We also expect that in 2011 the FDIC will introduce a revised methodology for computing the rate at which each depository institution is assessed insurance premiums based on a variety of factors. The FDIC insures interest bearing deposits accounts up to $250,000, and until December 31, 2012 it insures non-interest bearing deposit accounts on an unlimited basis.

On November 12, 2009, the FDIC voted to approve a rule to require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. An insured institution s quarterly risk-based deposit insurance assessment will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Consequently, the Company s prepayment of DIF premiums made on December 29, 2009 resulted in a prepaid asset of $925 million at that time.

FDIC regulations require that management report annually on its responsibility for preparing its institution s financial statements, establishing and maintaining an internal control structure and procedures for financial reporting, and compliance with designated laws and regulations concerning safety and soundness.

The Dodd-Frank Act created the CFPB, which is separated into five units: Research, Community Affairs, Complaint Tracking and Collection, Office of Fair Lending and Equal Opportunity, and Office of Financial Literacy. The Bureau has broad power to adopt new regulations to protect consumers, which power it may exercise at its discretion and so long as it advances the general concept of the protection of consumers. In particular, such regulations may further restrict the Company s banking subsidiary from collecting overdraft fees or limit the amount of overdraft fees that may be collected by the Company s banking subsidiary beyond the limits imposed by the 2009 amendments to Regulation E discussed below.

On November 12, 1999, financial modernization legislation known as the GLB Act was signed into law. Under the GLB Act, a bank holding company which elects to become a financial holding company may engage in expanded securities activities, insurance sales, underwriting activities, and other financial activities, and may also acquire securities firms and insurance companies, subject in each case to certain conditions. The Company has elected to become a financial holding company under the GLB Act. If any of our banking subsidiaries ceases to be well capitalized or well managed under applicable regulatory standards, the Federal Reserve may, among other things, place limitations on our ability to conduct these broader financial activities or, if the deficiencies persist, require us to divest the banking subsidiary. In order to become and maintain its status as a financial holding company, the Company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory CRA rating. Furthermore, if the Federal Reserve determines that a financial holding company has not maintained a satisfactory CRA rating, the Company will not be able to commence any new financial activities or acquire a company that engages in such activities, although the Company will still be allowed to engage in activities closely related to banking and make investments in the ordinary course of conducting merchant banking activities.

Federal banking regulators, as required under the GLB Act, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

The Patriot Act substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the U.S.; imposes compliance and due diligence obligations; creates crimes and penalties; compels the production of documents located both inside and outside the U.S., including those of non-U.S. institutions that have a correspondent relationship in the U.S.; and clarifies the safe harbor from civil liability to clients. The U.S. Treasury has issued a number of regulations that further clarify the Patriot Act s requirements or provide more specific guidance on their application. The Patriot Act requires all financial institutions, as defined, to establish certain anti-money laundering compliance and due diligence programs. The Patriot Act requires financial institutions that maintain correspondent accounts for non-U.S. institutions, or persons that are involved in private banking for non-U.S. persons or their representatives, to establish, appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering through those accounts. Bank regulators are focusing their examinations on anti-money laundering compliance, and we continue to enhance our anti-money laundering compliance programs.

In 2009, the Federal Reserve adopted amendments to its Regulation E that restricts our ability, beginning in July of 2010, to charge our clients overdraft fees for ATM and everyday debit card transactions. Pursuant to the adopted regulation, clients must opt-in to an overdraft service in order for the banking subsidiary to collect overdraft fees. Overdraft fees have in the past represented a significant amount of noninterest fees collected by the Company s banking subsidiary.

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. In addition, a bank may establish branches across state lines by merging with a bank in another state, subject to certain restrictions. A bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve. Under the recently enacted Dodd-Frank Act, a bank holding company may not acquire another bank or engage in new activities that are financial in nature or acquire a non-bank company that engages in activities that are financial in nature unless the bank holding company is both well capitalized and deemed by the Federal Reserve to be well managed. Moreover, a bank and its affiliates may not, after the acquisition of another bank, control more than 10% of the amount of deposits of insured depository institutions in the U.S. and a financial company may not merge, consolidate or acquire another company if the total consolidated liabilities of the acquiring financial company after such acquisition exceeds 10% of the aggregated consolidated liabilities of all financial companies at the end of the year preceding the transaction. In addition, certain states may have limitations on the amount of deposits any bank may hold within that state.

The Company is subject to the rules and regulations promulgated under the EESA by virtue of the Company s sale of preferred stock to the U.S. Treasury under the U.S. Treasury s CPP. Additional information relating to the restrictions on dividends and redemptions is included in the information set forth in Item 7 of this report under the caption, Capital Resources and Liquidity Risk. Furthermore, under rules and regulations of EESA to which the Company is subject, no dividends may be declared or paid on the Company s common stock and the Company may not repurchase or redeem any common stock unless dividends due with respect to Senior Preferred Shares have been paid in full. Moreover, the consent of the U.S. Treasury will be required for any increase in the per share dividends on the Company s common stock, beyond the per share dividend declared prior to October 14, 2008 ($0.77 per share per quarter) until the third anniversary of the date of U.S. Treasury s investment; unless prior to the third anniversary, the Senior Preferred Shares are redeemed in whole or the U.S. Treasury has transferred all of its shares to third parties. Under this provision, the Company could reduce its dividend and subsequently restore it to no more than $0.77 per share per quarter at any time. Additionally, if the Company pays a dividend in excess of $0.54 per share per quarter before the tenth anniversary then the anti-dilution provisions of the U.S. Treasury s warrants will reduce its exercise price and increase the number of shares issuable upon exercise of the warrant.

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Because of the Company s participation in the CPP, the U.S. Treasury is permitted to determine whether the public disclosure required for the Company with respect to the Company s off-balance sheet transactions, derivative instruments, contingent liabilities and similar sources of exposure are adequate to provide the public sufficient information as to the true financial position of the Company. If the U.S. Treasury were to determine that such disclosure is not adequate for such purpose, the U.S. Treasury will make additional recommendations for additional disclosure requirements to the Federal Reserve, the Company s primary federal regulator.

Because of the Company s participation in the CPP, the Company is subject to certain restrictions on its executive compensation practices, which are discussed in Item 11 of this report.

On July 21, 2010, the Federal Reserve and other regulators jointly published final guidance for structuring incentive compensation arrangements at financial organizations. All financial institutions, not just companies that participated in the CPP and even financial institutions which have repaid their CPP investments, are subject to this guidance. The guidance does not set forth any formulas or pay caps for, but contains certain principles which companies would be required to follow with respect to employees and groups of employees that may expose the organization to material amounts of risk. The three primary principles are (i) balanced risk-taking incentives, (ii) compatibility with effective controls and risk management, and (iii) strong corporate governance. The Federal Reserve will now monitor compliance with this guidance as part of its safety and soundness oversight.

The Company s non-banking subsidiaries are regulated and supervised by various other regulatory bodies. For example, STRH is a broker-dealer registered with the SEC and the FINRA. STIS is also a broker-dealer and investment adviser registered with the SEC and a member of the FINRA. RidgeWorth and several of RidgeWorth s subsidiaries are investment advisers registered with the SEC. GenSpring is a wealth management firm registered with the SEC and a member of the National Futures Association.

Competition

SunTrust operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation. The Company also faces aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to many of the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Although non-banking financial institutions may not have the same access to government programs, those non-banking financial institutions may elect to become financial holding companies and gain such access. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which the Company conducts business. Some of the Company s competitors have greater financial resources or face fewer regulatory constraints. As a result of these various sources of competition, the Company could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect the Company s profitability.

Since 2008, as a result of recent economic events, there has been an increase in the number of failures and acquisitions of commercial and investment banks, including large commercial and investment banks. Such transactions have allowed certain larger financial institutions to acquire a presence in our footprint. Additionally, certain large financial institutions that were formerly engaged primarily in investment banking activities have amended their charters to become regulated commercial banks, thereby increasing the direct competitors to the Company.

The Company s ability to expand into additional states remains subject to various federal and state laws. See Government Supervision and Regulation for a more detailed discussion of interstate banking and branching legislation and certain state legislation.

Employees

As of December 31, 2010, there were 29,056 full-time equivalent employees within SunTrust. None of the domestic employees within the Company are subject to a collective bargaining agreement. Management considers its employee relations to be good.

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Additional Information

See also the following additional information which is incorporated herein by reference: Business Segments (under the captions Business Segments in Item 7, the MD&A, and Business Segment Reporting in Note 22 to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data); Net Interest Income (under the captions Net Interest Income/Margin in the MD&A and Selected Financial Data in Item 6); Securities (under the caption Securities Available for Sale in the MD&A and Note 5 to the Consolidated Financial Statements); Loans and Leases (under the captions Loans , Allowance for Credit Losses , and Nonperforming Assets in the MD&A and Loans and Allowa for Credit Losses in Notes 6 and 7, respectively, to the Consolidated Financial Statements); Deposits (under the caption Deposits in the MD&A); Short-Term Borrowings (under the captions Liquidity Risk and Short-Term Borrowings in the MD&A and Other Short-Term Borrowings in Note 10 to the Consolidated Financial Statements); Trading Activities and Trading Assets and Liabilities (under the caption Trading Assets and Liabilities in the MD&A and Trading Assets and Liabilities and Fair Value Election and Measurement in Notes 4 and 20, respectively, to the Consolidated Financial Statements); Market Risk Management (under the caption Market Risk Management in the MD&A); Liquidity Risk Management (under the caption Liquidity Risk in the MD&A); and Operational Risk Management (under the caption Operational Risk Management in the MD&A).

SunTrust s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on the Company s web site at www.suntrust.com under the Investor Relations section as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to the SEC. The public may read and copy any materials the Company files with the SEC at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC s web site address is www.sec.gov. In addition, SunTrust makes available on its website at www.suntrust.com under the heading Corporate Governance its: (i) Code of Ethics; (ii) Corporate Governance Guidelines; and (iii) the charters of SunTrust Board committees.

The Company s Annual Report on Form 10-K is being distributed to shareholders in lieu of a separate annual report containing financial statements of the Company and its consolidated subsidiaries.

Item 1A. RISK FACTORS

The risks described in this report are not the only risks we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business, and prospects.

Recent Market, Legislative, and Regulatory Events

Difficult market conditions have adversely affected our industry.

Dramatic declines in the housing market over the past several years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions. Persistent high unemployment and reduced consumer confidence, has led to widespread reduction of business activity generally and an increased level of commercial and consumer delinquencies, and increased market volatility. This has adversely affected our business, financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry.

Concerns over market volatility continue.

The capital and credit markets experienced unprecedented volatility and disruption during the financial crisis. In some cases, the markets have produced downward pressure on asset prices and credit availability for certain issuers without regard to those issuers underlying financial strength. While markets stabilized in 2010, there can be no assurance that periods of market volatility and disruption will not occur and, if they do, that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Recently enacted legislation, legislation enacted in the future, and certain proposed federal programs subject us to increased regulation and may adversely affect us.

On October 14, 2008, the U.S. Treasury announced a program, the CPP, under the EESA pursuant to which it would make senior preferred stock investments in participating financial institutions. Because we participate in the CPP, we are subject to increased regulation, and we face additional regulations or changes to regulations to which we are subject as a result of our participation. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. For example, participation in the CPP limits (without the consent of the U.S. Treasury) our ability to increase our dividend or to repurchase our common stock for so long as any securities issued under such program remain outstanding. In addition, the EESA contains, among other things, significant restrictions on the payment of executive compensation, and this may have an adverse effect on the retention or recruitment of key members of senior management. Also, the cumulative dividend payable under the preferred stock that we issued to the U.S. Treasury pursuant to the CPP increases from 5% to 9% after 5 years. Additionally, we may not deduct interest paid on our preferred stock for income tax purposes.

We have not yet received permission to repay TARP funds.

In order to repay the TARP funds we received, we must first receive approval from our primary federal regulator who will then forward our application to the U.S. Treasury. Although we believe we have sufficient capital and liquidity to repay our TARP funds, to date, we have not obtained the necessary governmental approval to repay such funds. Additionally, the Federal Reserve has required similarly-situated financial institutions to raise additional common equity as a prerequisite to repaying TARP, and there can be no assurance that we will not also be required to do so. Until we repay our TARP funds, we will continue to be subject to the constraints imposed on us by the federal government in connection with such funds.

The Dodd-Frank Act makes fundamental changes in the regulation of the financial services industry, some of which may adversely affect our business.

The Dodd-Frank Act imposes new regulatory requirements and oversight over banks and other financial institutions in a number of ways, among which are (i) creating the CFPB to regulate consumer financial products and services; (ii) creating the Financial Stability Oversight Council to identify and impose additional regulatory oversight on large financial firms; (iii) granting orderly liquidation authority to the FDIC for the liquidation of financial corporations that pose a risk to the financial system of the United States; (iv) limiting debit card interchange fees; (v) adopting certain changes to shareholder rights, including a shareholder say on pay vote on executive compensation; (vi) strengthening the SEC s powers to regulate securities markets; (vii) regulating OTC derivative markets; (viii) making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and (ix) providing consumers a defense of set-off or recoupment in a foreclosure or collection action if the lender violates the newly created reasonable ability to repay provision; and (x) amending the Truth in Lending Act with respect to mortgage originations, including originator compensation, disallowing mandatory arbitration, and prepayment considerations. Regulators are tasked with adopting regulations that enact and define the breadth and scope of many of these changes. Many of the regulations that must be adopted under the Dodd-Frank Act have yet to be proposed, and it is difficult to gauge the impact of certain provisions of the Dodd-Frank Act because so many important details related to the concepts adopted in the Dodd-Frank Act were left within the discretion of the regulators. For example, the CFPB has the power to adopt new regulations to protect consumers, which power it may exercise at its discretion so long as it advances the general concept of the protection of consumers. Consequently, the impact of these regulations and other regulations to be adopted pursuant to the Dodd-Frank Act are unclear, but may impact our ability to meet all of our client s product needs, lead clients to seek financial solutions and products through nonbanking channels and adversely affect profits. Moreover, the increased regulatory scrutiny set forth in the bill and the various proposed mechanisms by which the regulated entities reimburse the regulatory agencies for the increased costs associated with implementing the increased regulatory scrutiny will likely increase our cost of compliance, divert our resources and may adversely affect profits.

Among those regulations that have been proposed, the following may adversely affect our business:

- Limitations on debit card interchange fees may affect our profits;
- Changing the assessment base for deposit insurance premiums from deposits to average consolidated total assets less average tangible equity, may increase our premiums and affect our profits;
- Changing the methodology for calculating deposit insurance premium rates will become more complex, less predictable and more pro-cyclical, adversely affecting our profits and diverting our resources;
- Changing the procedures for liquidation may adversely impact our credit ratings and adversely impact our liquidity, profits, and our ability to fund ourselves;
- Increases in requirements for regulatory capital while eliminating certain sources of capital may adversely affect our profits;

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- The ability to pay interest on commercial demand deposit accounts may increase our interest expenses; and
- The increased regulation of derivatives and proprietary trading activities may adversely affect profits.

These provisions may limit the types of products we offer, the methods of offering them, and prices at which they are offered. They may also increase the cost of offering these products. These provisions likely will affect different financial institutions in different ways, and therefore, may also affect the competitive landscape.

SunTrust Bank may be subject to higher deposit insurance assessments.

Pursuant to the Dodd-Frank Act, the FDIC amended its regulations regarding the assessment for federal deposit insurance to base such assessments on the average total consolidated assets of insured depository institutions during the assessment period, less the average tangible equity of the institution during the assessment period. Presently, we are assessed only on our domestic deposits, and this change may result in a substantial increase in the base to which the insurance rate is applied. The Dodd-Frank Act also eliminates Section 7(b)(2)(D) of the FDIA, which provided that no insured depository institution may be barred from the lowest-risk category in the FDIC s deposit insurance assessment system solely because of size. The FDIC has also proposed regulations that would change the way the deposit insurance assessment rate is applied to banks to a system that is risk-based. This makes a higher rate assessment possible. The cumulative effect of these provisions may be a significant increase in the deposit insurance assessment which may adversely affect our results.

We are subject to capital adequacy and liquidity guidelines and, if we fail to meet these guidelines, our financial condition would be adversely affected.

Under regulatory capital adequacy guidelines and other regulatory requirements, our Company and our subsidiary bank and broker-dealers must meet guidelines subject to qualitative judgments by regulators about components, risk weightings and other factors. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. The Capital Framework and Basel III described in Item 1 under Government Supervision and Regulation, when implemented by the U.S. banking agencies and fully phased-in, will result in higher and more stringent capital requirements for our Company and our banking subsidiaries. Under the Dodd-Frank Act, the Federal Reserve, using a phased-in approach between 2013 and 2016, will no longer include trust preferred and certain other hybrid debt securities in Tier 1 Capital. At such future time, SunTrust will have approximately $2.3 billion principal amount of such securities that are currently outstanding which we expect will be affected. Such eventual loss of Tier 1 Capital, and actions to replace such capital, may adversely affect us. Additionally, the Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests, including a LCR, which is designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, and a NSFR, designed to promote more medium and long-term funding based on the liquidity characteristics of the assets and activities of banking entities over a one-year time horizon. If we fail to meet these minimum liquidity capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. The LCR and NSFR have proposed adoption dates beginning in 2015 and 2018, respectively.

Emergency measures designed to stabilize the U.S. banking system are beginning to wind down.

Since the middle of 2008, a number of legislative and regulatory actions have been implemented in response to the recent financial crisis. Some of these programs have begun to expire and the impact of the wind down of these programs on the financial sector and on the economic recovery is unknown. A stall in the economic recovery or a continuation or worsening of current financial market conditions could materially and adversely affect our business and results of operations.

Business Risks

We are subject to credit risk.

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, which is the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts. A number of our products expose us to credit risk, including loans, leases and lending commitments, derivatives, trading account assets, insurance arrangements with respect to such products, and assets held for sale. As one of the nation s largest lenders, the credit quality of our portfolio can have a significant impact on our earnings. We estimate and establish reserves for credit risks and credit losses inherent in our credit exposure (including unfunded credit commitments). This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we do identify.

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Our ALLL may not be adequate to cover our eventual losses.

Like other financial institutions, we maintain an ALLL to provide for loan defaults and nonperformance. Our ALLL is based on our historical loss experience, as well as an evaluation of the risks associated with our loan portfolio, including the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio. The current stress on the U.S. economy and the local economies in which we do business may be greater or last longer than expected, resulting in, among other things, greater than expected deterioration in credit quality of our loan portfolio, or in the value of collateral securing these loans. Our ALLL may not be adequate to cover eventual loan losses, and future provisions for loan losses could materially and adversely affect our financial condition and results of operations.

Additionally, in order to maximize the collection of loan balances, we sometimes modify loan terms when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. If such modifications ultimately are less effective at mitigating loan losses than we expect, we may incur losses in excess of the specific amount of ALLL associated with a modified loan, and this would result in additional provision for loan loss expense.

We will realize future losses if the proceeds we receive upon liquidation of nonperforming assets are less than the carrying value of such assets.

Nonperforming assets are recorded on our financial statements at the estimated net realizable value that we expect to receive from ultimately dispensing of the assets. Deteriorating market conditions could result in a realization of future losses if the proceeds we receive upon dispositions of nonperforming assets are less than the carrying value of such assets.

Weakness in the economy and in the real estate market, including specific weakness within our geographic footprint, has adversely affected us and may continue to adversely affect us.

If the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations remain weak, this could result in, among other things, a deterioration of credit quality or a reduced demand for credit, including a resultant effect on our loan portfolio and ALLL. A significant portion of our residential mortgages and commercial real estate loan portfolios are composed of borrowers in the Southeastern and Mid-Atlantic regions of the U.S., in which certain markets have been particularly adversely affected by declines in real estate value, declines in home sale volumes, and declines in new home building. These factors could result in higher delinquencies and greater charge-offs in future periods, which would materially adversely affect our financial condition and results of operations.

Weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may continue to adversely affect us.

Weakness in the non-agency secondary market for residential mortgage loans has limited the market for and liquidity of many mortgage loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans that we hold, and mortgage loan originations and profits on sales of mortgage loans. Declining real estate prices have caused cyclically higher delinquencies and losses on mortgage loans, particularly Alt-A mortgages, home equity lines of credit, and mortgage loans sourced from brokers that are outside our branch bank network. These conditions have resulted in losses, write downs and impairment charges in our mortgage and other lines of business. Continued declines in real estate values, low home sales volumes, financial stress on borrowers as a result of unemployment, interest rate resets on ARMs or other factors could have further adverse effects on borrowers that could result in higher delinquencies and greater charge-offs in future periods, which would adversely affect our financial condition or results of operations. Additionally, counterparties to insurance arrangements used to mitigate risk associated with increased defaults in the real estate market are stressed by weaknesses in the real estate market and a commensurate increase in the number of claims. Additionally, decreases in real estate values might adversely affect the creditworthiness of state and local governments, and this might result in decreased profitability or credit losses from loans made to such governments. A decline in home values or overall economic weakness could also have an adverse impact upon the value of real estate or other assets which we own upon foreclosing a loan and our ability to realize value on such assets.

We are subject to certain risks related to originating and selling mortgages. We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could harm our liquidity, results of operations, and financial condition.

We originate and often sell mortgage loans. When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our whole loan sale agreements require us to repurchase or substitute mortgage loans in the event we breach any of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud or in the event of early payment default of the borrower on a mortgage loan. Likewise, we are required to repurchase or substitute mortgage loans if we breach a representation or warranty in connection with our securitizations. While in many cases we may have a remedy available against the originating broker or correspondent, often these may not be as broad as the remedies available to a purchaser of mortgage loans against us, and we face the further risk that the originating broker or correspondent may not have the financial capacity to satisfy remedies that otherwise may be available to us. Therefore, if a purchaser enforces its remedies against us, we may not be able to recover our losses from the originating broker or correspondent. We have received a number of repurchase and indemnity demands from purchasers. These have resulted in an increase in the amount of losses for repurchases. While we have taken steps to enhance our underwriting policies and procedures, these steps will not reduce risk associated with loans sold in the past. If repurchase and indemnity demands increase materially, our results of operations may be adversely affected.

We are subject to risks related to delays in the foreclosure process.

When we originate a mortgage loan, we do so with the expectation that if the borrower defaults then our ultimate loss is mitigated by the value of the collateral which secures the mortgage loan. Our ability to mitigate our losses on such defaulted loans depends upon our ability to promptly foreclose upon such collateral after an appropriate cure period. In some states, the large number of foreclosures which have occurred has resulted in delays in foreclosing. In some instances, our practices or failures to adhere to our policies has contributed to these delays refer to Management s Discussion and Analysis Nonperforming Assets. Any delay in the foreclosure process will adversely affect us by increasing our expenses related to carrying such assets, such as taxes, insurance, and other carrying costs, and exposes us to losses as a result of potential additional declines in the value of such collateral.

Regulators and other law enforcement authorities in certain states and the U.S. Department of Justice and other federal agencies have stated they are investigating whether mortgage servicers have had irregularities in their foreclosure practices. Those investigations, as well as any other governmental or regulatory scrutiny of our foreclosure processes, could result in fines, penalties or other equitable remedies and result in significant legal costs in responding to governmental investigations and possible litigation. While we cannot predict the ultimate impact of any delay in foreclosure sales, or any issues that may arise as a result of alleged irregularities with respect to previously completed foreclosure activities, we may be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current foreclosure activities. This scrutiny may extend beyond our pending foreclosure matters to issues arising out of alleged irregularities with respect to previously completed foreclosure activities. We expect that our costs will increase modestly in 2011 as a result of the additional resources necessary to perform the foreclosure process assessment, revise affidavit filings and make any other operational changes. This may result in higher noninterest expense, including higher servicing costs and legal expenses, in our Mortgage line of business. In addition, process changes required as a result of our assessment could increase our default servicing costs over the longer term. Finally, the time to complete foreclosure sales temporarily may increase, and this may result in an increase in nonperforming assets and servicing advances and may impact the collectability of such advances and the value of our MSR asset. Accordingly, delays in foreclosure sales, including any delays beyond those currently anticipated, our process enhancements and any issues that may arise out of alleged irregularities in our foreclosure processes could increase the costs associated with our mortgage operations.

We may continue to suffer increased losses in our loan portfolio despite enhancement of our underwriting policies.

We seek to mitigate risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices often include the analysis of a borrower s credit history, financial statements, tax returns and cash flow projections; valuation of collateral based on reports of independent appraisers; and verification of liquid assets. Although we have taken steps to enhance our underwriting policies and procedures, we have still incurred high levels of losses on loans that have met these criteria, and may continue to experience higher than expected losses depending on economic factors and borrower behavior.

As a financial services company, adverse changes in general business or economic conditions could have a material adverse effect on our financial condition and results of operations.

The continuing weakness or further weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse impacts on our business:

- A decrease in the demand for loans and other products and services offered by us;
- A decrease in the value of our LHFS or other assets;
- A loss of clients and/or reduced earnings could trigger an impairment of certain intangible assets, such as goodwill;
- An increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for credit losses, and valuation adjustments on LHFS.

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Changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital or liquidity.

Given our business mix, and the fact that most of the assets and liabilities are financial in nature, we tend to be sensitive to market interest rate movements and the performance of the financial markets. In addition to the impact of the general economy, changes in interest rates or in valuations in the debt or equity markets could directly impact us in one or more of the following ways:

- The yield on earning assets and rates paid on interest-bearing liabilities may change in disproportionate ways;
- The value of certain balance sheet and off-balance sheet financial instruments or the value of equity investments that we hold could decline;
- The value of assets for which we provide processing services could decline; or
- To the extent we access capital markets to raise funds to support our business, such changes could affect the cost of such funds or the ability to raise such funds.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Federal Reserve regulates the supply of money and credit in the U.S. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. They can also materially decrease the value of financial assets we hold, such as debt securities and MSRs. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve policies are beyond our control and difficult to predict; consequently, the impact of these changes on our activities and results of operations is difficult to predict.

Depressed market values for our stock may require us to write down goodwill.

Numerous facts and circumstances are considered when evaluating the carrying value of our goodwill. One of those considerations is the estimated fair value of each reporting unit. The fair value of a reporting unit is impacted by the reporting unit s expected financial performance and susceptibility to adverse economic, regulatory, and legislative changes. The estimated fair values of the individual reporting units are assessed for reasonableness by reviewing a variety of indicators, including our market capitalization evaluated over a reasonable period of time. While this comparison provides some relative market information regarding the estimated fair value of the reporting units, it is not determinative and needs to be evaluated in the context of the current economic and political environment. However, significant and/or sustained declines in our market capitalization, especially in relation to our book value, could be an indication of potential impairment of goodwill.

Clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding.

Checking and savings account balances and other forms of client deposits could decrease if clients perceive alternative investments, such as the stock market, as providing superior expected returns. When clients move money out of bank deposits in favor of alternative investments, we can lose a relatively inexpensive source of funds, increasing our funding costs.

Consumers may decide not to use banks to complete their financial transactions, which could affect net income.

Technology and other changes now allow parties to complete financial transactions without banks. For example, consumers can pay bills and transfer funds directly without banks. This process could result in the loss of fee income, as well as the loss of client deposits and the income generated from those deposits.

We have businesses other than banking which subject us to a variety of risks.

We are a diversified financial services company. This diversity subjects earnings to a broader variety of risks and uncertainties.

Hurricanes and other natural or man-made disasters may adversely affect loan portfolios and operations and increase the cost of doing business.

Large scale natural or man-made disasters may significantly affect loan portfolios by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The nature and level of disasters cannot be predicted and may be exacerbated by global climate change. The ultimate impact of a disaster on future financial results is difficult to predict and will be affected by a number of factors, including the extent of damage to the collateral, the extent to which damaged collateral is not covered by insurance, the extent to which unemployment and other economic conditions caused by the disaster adversely affect the ability of borrowers to repay their loans, and the cost of collection and foreclosure moratoriums, loan forbearances and other accommodations granted to borrowers and other clients.

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Negative public opinion could damage our reputation and adversely impact business and revenues.

As a financial institution, our earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by us to meet our clients expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract and/or retain clients and personnel and can expose us to litigation and regulatory action. Actual or alleged conduct by one of our businesses can result in negative public opinion about our other businesses. Negative public opinion could also affect our credit ratings, which are important to accessing unsecured wholesale borrowings. Significant changes in these ratings could change the cost and availability of these sources of funding.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business infrastructure such as banking services, processing, and internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt the operations or increase the costs of doing business.

We rely on our systems, employees, and certain counterparties, and certain failures could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and record-keeping errors, and computer/telecommunications systems malfunctions. Our businesses are dependent on our ability to process a large number of increasingly complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including relating to break-downs or failures of such parties own systems or employees. Any of these occurrences could result in a diminished ability of us to operate one or more of our businesses, financial loss, potential liability to clients, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect us.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages or natural or man-made disasters, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party service providers. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors.

Industry Risks

Regulation by federal and state agencies could adversely affect the business, revenue, and profit margins.

We are heavily regulated by federal and state agencies. This regulation is to protect depositors, the federal DIF and the banking system as a whole. The U.S. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including interpretation or implementation of statutes, regulations, or policies, could affect us adversely, including limiting the types of financial services and products we may offer and/or increasing the ability of nonbanks to offer competing financial services and products. Also, if we do not comply with laws, regulations, or policies, we could receive regulatory sanctions and damage to our reputation.

Competition in the financial services industry is intense and could result in losing business or margin declines.

We operate in a highly competitive industry that could become even more competitive as a result of reform of the financial services industry resulting from the Dodd-Frank Act and other legislative, regulatory and technological changes, and continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies, can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking, and may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct business. Some of our competitors have greater financial resources and/or face fewer regulatory constraints, including those competitors that have been able to repay TARP funds. As a result of these various sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

Maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases.

Company Risks

We may not pay dividends on your common stock.

Holders of our common stock are only entitled to receive such dividends as our Board may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. Also, our ability to increase our dividend or to make other distributions is restricted due to our participation in the CPP, which limits (without the consent of the U.S. Treasury) our ability to increase our dividend or to repurchase our common stock for so long as any securities issued under such program remain outstanding.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that our Bank and certain of our nonbank subsidiaries may pay us. Also, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors. Limitations on our ability to receive dividends from our subsidiaries could have a material adverse effect on our liquidity and on our ability to pay dividends on common stock. Additionally, if our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common stockholders.

Disruptions in our ability to access global capital markets may negatively affect our capital resources and liquidity.

In managing our consolidated balance sheet, we depend on access to global capital markets to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our clients. Other sources of funding available to us, and upon which we rely as regular components of our liquidity risk management strategy, include inter-bank borrowings, repurchase agreements, and borrowings from the Federal Reserve discount window. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, or a downgrade of our debt rating, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity.

Any reduction in our credit rating could increase the cost of our funding from the capital markets.

Although our issuer ratings are still rated investment grade by the major rating agencies, those ratings were downgraded during 2009 and 2010 by the major rating agencies. These rating agencies regularly evaluate us and their ratings are based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. In light of the difficulties in the financial services industry and the housing and financial markets, there can be no assurance that we will maintain our current ratings. Our failure to maintain those ratings could adversely affect the cost and other terms upon which we are able to obtain funding and increase our cost of capital.

In addition, on November 1, 2010, Moody s removed all systemic support assumptions from the Parent Company and the Bank s ratings while at the same time upgrading the Bank s stand-alone bank financial strength rating. The combination of these two actions resulted in the confirmation of the Parent Company s senior credit ratings at Baa1/P-2. However, the combination of the removal of systemic support assumptions and the upgrade of the stand-alone bank financial strength rating did lead to a one-notch downgrade of the long-term and short-term senior credit ratings for the Bank from A2/P-1 to A3/P-2, respectively. Moody s concurrently upgraded the outlook for the Parent Company and the Bank s ratings from Negative to Stable . This ratings action concludes Moody s review of its systemic support assumptions for certain banks following the passage of the Dodd-Frank Act. Moody s downgrade related to their previous announcement on July 27, 2010 that as a result of the passage of the Dodd-Frank Act, Moody s would reconsider its systemic support assumption for ten regional banks, including the Parent Company and the Bank, whose ratings were lifted through the recent financial crisis but may not be considered systemically supported outside of the crisis. Moody s analysis has previously included an assumption that some banks will receive extraordinary support from regulators because they are deemed systemically important. Our credit ratings remain on Stable outlook with S&P, DBRS, and Fitch, in addition to Moody s. Additional downgrades are possible although not anticipated given the Stable outlook from all four rating agencies.

We have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits.

We have historically pursued an acquisition strategy, and may continue to seek additional acquisition opportunities. We may not be able to successfully identify suitable candidates, negotiate appropriate acquisition terms, complete proposed acquisitions, successfully integrate acquired businesses into the existing operations, or expand into new markets. Once integrated, acquired operations may not achieve levels of revenues, profitability, or productivity comparable with those achieved by our existing operations, or otherwise perform as expected.

Acquisitions involve numerous risks, including difficulties in the integration of the operations, technologies, services and products of the acquired companies, and the diversion of management s attention from other business concerns. We may not properly ascertain all such risks prior to an acquisition or prior to such a risk impacting us while integrating an acquired company. As a result, difficulties encountered with acquisitions could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, we must generally receive federal regulatory approval before we can acquire a bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors,

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the effect of the acquisition on competition, financial condition, future prospects, including current and projected capital levels, the competence, experience, and integrity of management, compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution s record of compliance under the CRA, and the effectiveness of the acquiring institution in combating money laundering activities. In addition, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we might be required to sell portions of the acquired institution as a condition to receiving regulatory approval or we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

We are subject to certain litigation, and our expenses related to this litigation may adversely affect our results.

We are from time to time subject to certain litigation in the ordinary course of our business. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of these cases is uncertain. However, during the current credit crisis, we have seen both the number of cases and our expenses related to those cases increase. While we do not believe that any single case will have a material adverse effect on us, the cumulative burden of these cases may adversely affect our results. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could adversely affect our results of operations and financial condition.

We depend on the expertise of key personnel. If these individuals leave or change their roles without effective replacements, operations may suffer.

The success of our business has been, and the continuing success will be, dependent to a large degree on the continued services of executive officers, especially our Chairman and Chief Executive Officer, James M. Wells III, and our President and Chief Operating Officer, William H. Rogers, Jr., and other key personnel who have extensive experience in the industry. We do not carry key person life insurance on any of the executive officers or other key personnel. If we lose the services of any of these integral personnel and fail to manage a smooth transition to new personnel, the business could be impacted.

We may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategies.

Our success depends upon the ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees. Pursuant to recently enacted legislation, the U.S. Treasury has instituted certain restrictions on the compensation of certain senior management positions. It is possible that the U.S. Treasury may, as it is permitted to do, impose further requirements on us that may inhibit our ability to hire and retain the most qualified senior personnel. In addition, until we repay our TARP funds, we will continue to be subject to significant restrictions on the payment of executive compensation and may be at a disadvantage to our competitors who have repaid TARP funds in our ability to recruit and retain the most qualified senior personnel. Our ability to execute the business strategy and provide high quality service may suffer if we are unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially.

Further, in June, 2010, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly restricts the amount, form, and context in which we pay incentive compensation.

Our accounting policies and processes are critical to how we report our financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how we record and report the financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with U.S. GAAP.

Management has identified certain accounting policies as being critical because they require management s judgment to ascertain the valuations of assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability, or recognizing or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies

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and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. See the Critical Accounting Policies in the MD&A and Note 1, Significant Accounting Policies, to the Consolidated Financial Statements.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

Our stock price can be volatile.

Our stock price can fluctuate widely in response to a variety of factors including:

- variations in our quarterly results;
- changes in market valuations of companies in the financial services industry;
- governmental and regulatory legislation or actions;
- issuances of shares of common stock or other securities in the future;
- changes in dividends;
- the addition or departure of key personnel;
- cyclical fluctuations;
- changes in financial estimates or recommendations by securities analysts regarding us or shares of our common stock;
- announcements by us or our competitors of new services or technology, acquisitions, or joint ventures; and
- activity by short sellers and changing government restrictions on such activity.

General market fluctuations, industry factors, and general economic and political conditions and events, such as terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends, or currency fluctuations, also could cause our stock price to decrease regardless of operating results.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

Our financial instruments carried at fair value expose us to certain market risks.

We maintain at fair value a securities AFS portfolio and trading assets and liabilities which include various types of instruments and maturities. In addition, we elected to record selected fixed-rate debt, mortgage loans, securitization warehouses, MSRs and other financial instruments at fair value. The changes in fair value of the financial instruments carried at fair value are recognized in earnings. The financial instruments carried at fair value are exposed to market risks related to changes in interest rates, market liquidity, and our market-based credit spreads, as well as to the risk of default by specific borrowers. We manage the market risks associated with these instruments through active hedging arrangements or broader asset/liability management strategies. Changes in the market values of these financial instruments could have a material adverse impact on our financial condition or results of operations. We may classify additional financial assets or financial liabilities at fair value in the future.

Our revenues derived from our investment securities may be volatile and subject to a variety of risks.

We generally maintain investment securities and trading positions in the fixed income, currency, commodity, and equity markets. Unrealized gains and losses associated with our investment portfolio and mark to market gains and losses associated with our trading portfolio are affected by many factors, including interest rate volatility, volatility in capital markets, and other economic factors. Our return on such investments and trading have in the past experienced, and will likely in the future experience, volatility and such volatility may materially adversely affect our financial condition and results of operations. Additionally, accounting regulations may require us to record a charge prior to the actual realization of a loss when market valuations of such securities are impaired and such impairment is considered to be other than temporary.

We may enter into transactions with off-balance sheet affiliates or our subsidiaries.

We engage in a variety of transactions with off-balance sheet entities with which we are affiliated. While we have no obligation, contractual or otherwise, to do so, under certain limited circumstances, these transactions may involve providing some form of financial support to these entities. Any such actions may cause us to recognize current or future gains or losses. Depending on the nature and magnitude of any transaction we enter into with off-balance sheet entities, accounting rules may require us to consolidate the financial results of these entities with our financial results.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company s headquarters is located in Atlanta, Georgia. As of December 31, 2010, the Bank owned 613 of its 1,668 full-service banking offices and leased the remaining banking offices. (See Note 8, Premises and Equipment, to the Consolidated Financial Statements for further discussion of its properties.)

Item 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the normal course of its business activities, some of which involve claims for substantial amounts. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Company s consolidated results of operations, cash flows, or financial condition. For additional information, see also Note 21, Contingencies, to the Consolidated Financial Statements, which is incorporated into this Item 3 by reference.

Item 4. (REMOVED AND RESERVED)

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market in which the common stock of the Company is traded is the NYSE. See Item 6 and Table 29 in the MD&A for information on the high and the low sales prices of SunTrust common stock on the NYSE, which is incorporated herein by reference. During the twelve months ended December 31, 2010, we paid a quarterly dividend on common stock of $0.01 per common share compared to a quarterly dividend on common stock of $0.10 per common share for the first two quarters and $0.01 per common share in the third and fourth quarters of 2009. Our common stock is held of record by approximately 35,465 holders as of December 31, 2010. See Table 25 in the MD&A for information on the monthly share repurchases activity, including total common shares repurchased and announced programs, weighted average per share price, and the remaining buy-back authority under the announced programs, which is incorporated herein by reference.

Please also refer to Item 1, Business Government Supervision and Regulation, for a discussion of legal restrictions which affect our ability to pay dividends; Item 1A, Risk Factors, for a discussion of some risks related to our dividend, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources, for a discussion of the dividends paid during the year and factors that may affect the future level of dividends.

The information under the caption Equity Compensation Plans in our definitive proxy statement to be filed with the SEC is incorporated by reference into this Item 5.

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our common stock against the cumulative total return of the S&P Composite-500 Stock Index and the S&P Commercial Bank Industry Index for the five years commencing December 31, 2005 and ending December 31, 2010. The foregoing analysis assumes an initial $100 investment in our stock and each index and the reinvestment of all dividends during the periods presented.

	Cumulative total return for the year ended December 31					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
SunTrust Banks, Inc.	**100.00**	**119.42**	**93.25**	**51.88**	**39.47**	**52.20**
S&P 500	**100.00**	**115.61**	**121.84**	**78.85**	**97.61**	**110.85**
S&P Commercial Bank Index	**100.00**	**115.83**	**83.28**	**48.16**	**45.45**	**52.28**

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Item 6. SELECTED FINANCIAL DATA

	Year Ended December 31				
(Dollars in millions, except per share and other data)	**2010**	2009	2008	2007	2006
Summary of Operations					
Interest income	**$6,343**	$6,710	$8,328	$10,036	$9,792
Interest expense	**1,489**	2,244	3,708	5,316	5,132
Net interest income	**4,854**	4,466	4,620	4,720	4,660
Provision for credit losses[3]	**2,651**	4,064	2,474	665	262
Net interest income after provision for credit losses	**2,203**	402	2,146	4,055	4,398
Noninterest income	**3,729**	3,710	4,473	3,429	3,468
Noninterest expense	**5,911**	6,562	5,879	5,221	4,866
Income/(loss) before provision/(benefit) for income taxes	**21**	(2,450)	740	2,263	3,000
Net income attributable to noncontrolling interest	**17**	12	11	13	14
Provision/(benefit) for income taxes	**(185)**	(898)	(67)	616	869
Net income/(loss)	**$189**	($1,564)	$796	$1,634	$2,117
Net income/(loss) available to common shareholders	**($87)**	($1,733)	$741	$1,593	$2,098
Net interest income-FTE[1]	**$4,970**	$4,589	$4,737	$4,822	$4,748
Total revenue-FTE[1]	**8,699**	8,299	9,210	8,251	8,216
Total revenue-FTE excluding net securities (gains)/losses, net[1]	**8,508**	8,201	8,137	8,008	8,266
Net income/(loss) per average common share[2]					
Diluted	**($0.18)**	($3.98)	$2.12	$4.52	$5.78
Diluted excluding goodwill/intangible impairment charges, other than MSRs[1]	**(0.18)**	(2.34)	2.19	4.39	5.77
Basic	**(0.18)**	(3.98)	2.12	4.56	5.84
Dividends paid per average common share	**0.04**	0.22	2.85	2.92	2.44
Book value per common share	**36.34**	35.29	48.74	50.72	49.12
Tangible book value per common share[1]	**23.76**	22.59	28.69	30.11	28.66
Market capitalization	**$14,768**	$10,128	$10,472	$21,772	$29,972
Market price:					
High	**31.92**	30.18	70.00	94.18	85.64
Low	**20.16**	6.00	19.75	60.02	69.68
Close	**29.51**	20.29	29.54	62.49	84.45
Selected Average Balances					
Total assets	**$172,375**	$175,442	$175,848	$177,796	$180,315
Earning assets	**147,187**	150,908	152,749	155,204	158,429
Loans	**113,925**	121,041	125,433	120,081	119,645
Consumer and commercial deposits	**117,129**	113,164	101,333	98,020	97,175
Brokered and foreign deposits	**2,916**	6,082	14,743	21,856	26,490
Total shareholders equity	**22,834**	22,286	18,596	17,928	17,698
Average common shares - diluted (thousands)	**498,744**	437,486	350,183	352,688	362,802
Average common shares - basic (thousands)	**495,361**	435,328	348,919	349,346	359,413
As of December 31					
Total assets	**$172,874**	$174,165	$189,138	$179,574	$182,162
Earning assets	**148,473**	147,896	156,017	154,397	159,064
Loans	**115,975**	113,675	126,998	122,319	121,454
Allowance for loan and lease losses	**2,974**	3,120	2,351	1,283	1,045
Consumer and commercial deposits	**120,025**	116,303	105,276	101,870	99,776
Brokered and foreign deposits	**3,019**	5,560	8,053	15,973	24,246
Long-term debt	**13,648**	17,490	26,812	22,957	18,993
Total shareholders equity	**23,130**	22,531	22,501	18,170	17,932
Financial Ratios and Other Data					
Return on average total assets	**0.11 %**	(0.89) %	0.45 %	0.92 %	1.17 %
	0.01	(0.96)	0.05	0.81	1.17

Return on average total assets less net unrealized securities (gains)/losses[1]					
Return on average common shareholders equity	**(0.49)**	(10.07)	4.20	9.14	11.95
Return on average realized common shareholders equity[1]	**(1.53)**	(11.12)	0.16	8.52	12.53
Net interest margin - FTE	**3.38**	3.04	3.10	3.11	3.00
Efficiency ratio - FTE	**67.94**	79.07	63.83	63.28	59.23
Tangible efficiency ratio[1]	**67.36**	69.35	62.51	62.11	57.97
Total average shareholders equity to total average assets	**13.25**	12.70	10.58	10.08	9.81
Tangible equity to tangible assets[1]	**10.12**	9.66	8.46	6.38	6.10
Effective tax rate (benefit)[5]	**NM**	(36.50)	(9.23)	27.21	28.97
Allowance to year-end total loans	**2.58**	2.76	1.86	1.05	0.86
Total nonperforming assets to total loans plus OREO and other repossessed assets	**4.08**	5.33	3.49	1.35	0.49
Common dividend payout ratio[4]	**N/A**	N/A	135.6	64.5	41.9
Capital Adequacy					
Tier 1 common equity	**8.08 %**	7.67 %	5.83 %	5.27 %	5.66 %
Tier 1 capital	**13.67**	12.96	10.87	6.93	7.72
Total capital	**16.54**	16.43	14.04	10.30	11.11
Tier 1 leverage	**10.94**	10.90	10.45	6.90	7.23

[1] See Non-GAAP reconcilements in Tables 30 and 31 of the Management s Discussion and Analysis of Financial Condition and Results of Operations.

[2] Prior period amounts have been recalculated in accordance with updated accounting guidance related to earnings per share, that was effective January 1, 2009 and required retrospective application.

[3] Beginning in the fourth quarter of 2009, SunTrust began recording the provision for unfunded commitments within the provision for credit losses in the Consolidated Statements of Income/(Loss). Considering the immateriality of this provision, prior to the fourth quarter of 2009, the provision for unfunded commitments remains classified within other noninterest expense in the Consolidated Statements of Income/(Loss).

[4] The common dividend payout ratio is not applicable in a period of net loss.

[5] The effective tax rate was not meaningful for the year ended December 31, 2010.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Important Cautionary Statement About Forward-Looking Statements

This report may contain forward-looking statements. Statements regarding expectations regarding changes in the ALLL, charge-offs, nonperforming assets, NPLs, provision expense, early-stage delinquencies, service charge income; expectations regarding future levels of net interest margin, future repurchase related losses and reserves, our expense base, home prices, default frequency, loss severity, commercial loan growth; expectations regarding the effect on us over time of changes in the FDIC s method of assessing deposit insurance premiums; and expectations regarding the impact to us of changes to our foreclosure processes and certain remediation actions, are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words believes, expects, anticipates, estimates, intends, plans, targets, initiatives, potentially, probably, projects, outlook future conditional verbs such as may, will, should, would, and could. Such statements are based upon the current beliefs and expectatio management and on information currently available to management. Such statements speak as of the date hereof, and we do not assume any obligation to update the statements made herein or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Item 1A of Part I of this report and include risks discussed in this MD&A and in other periodic reports that we file with the SEC. Those factors include: difficult market conditions have adversely affected our industry; concerns over market volatility continue; recently enacted legislation, legislation enacted in the future, and certain proposed federal programs subject us to increased regulation and may adversely affect us; we have not yet received permission to repay TARP funds; the Dodd-Frank Act makes fundamental changes to the regulation of the financial services industry, some of which may adversely affect our business; SunTrust Bank may be subject to higher deposit insurance assessments; we are subject to capital adequacy and liquidity guidelines and, if we fail to meet these guidelines, our financial condition would be adversely affected; emergency measures designed to stabilize the U.S. banking system are beginning to wind down; we are subject to credit risk; our ALLL may not be adequate to cover our eventual losses; we will realize future losses if the proceeds we receive upon liquidation of nonperforming assets are less than the carrying value of such assets; weakness in the economy and in the real estate market, including specific weakness within our geographic footprint, has adversely affected us and may continue to adversely affect us; weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may continue to adversely affect us; we are subject to certain risks from originating, selling, and holding mortgages, including the risk that we may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could harm our liquidity, results of operations, and financial condition; we are subject to risks related to delays in the foreclosure process; we may continue to suffer increased losses in our loan portfolio despite enhancement of our underwriting policies; as a financial services company, adverse changes in general business or economic conditions could have a material adverse effect on our financial condition and results of operations; changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital or liquidity; the fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings; depressed market values for our stock may require us to write down goodwill; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; consumers may decide not to use banks to complete their financial transactions, which could affect net income; we have businesses other than banking which subject us to a variety of risks; hurricanes and other natural or man-made disasters may adversely affect loan portfolios and operations and increase the cost of doing business; negative public opinion could damage our reputation and adversely impact business and revenues; the soundness of other financial institutions could adversely affect us; we rely on other companies to provide key components of our business infrastructure; we rely on our systems, employees, and certain counterparties, and certain failures could materially adversely affect our operations; we depend on the accuracy and completeness of information about clients and counterparties; regulation by federal and state agencies could adversely affect the business, revenue, and profit margins; competition in the financial services industry is intense and could result in losing business or margin declines; maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services; we may not pay dividends on your common stock; our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends; disruptions in our ability to access global capital markets may negatively affect our capital resources and liquidity; any reduction in our credit rating could increase the cost of our funding from the capital markets; we have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits; we are subject to certain litigation, and our expenses related to this litigation may adversely affect our results; we depend on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer; we may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategy; our accounting policies and processes are critical to how we report our financial condition and results of operations, and require management to make estimates about matters that are uncertain; changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition; our stock price can be volatile; our disclosure controls and procedures may not prevent or detect all errors or acts of fraud; our financial instruments carried at fair value expose us to certain market risks; our revenues derived from our investment securities may be volatile and subject to a variety of risks; and we may enter into transactions with off-balance sheet affiliates or our subsidiaries.

This narrative will assist readers in their analysis of the accompanying consolidated financial statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes. When we refer to SunTrust, the Company, we, our an us in this narrative, we mean SunTrust Banks, Inc. and Subsidiaries (consolidated). Effective May 1, 2008, we acquired GB&T and the results of operations for GB&T were included with our results beginning on that date. Periods prior to the acquisition date do not reflect the impact of the merger.

In the MD&A, net interest income, net interest margin, and the efficiency ratio are presented on an FTE basis and the quarterly ratios are presented on an annualized basis. The FTE basis adjusts for the tax-favored status of income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. We also present diluted earnings per common share excluding goodwill and intangible impairment charges. We believe the exclusion of the impairment charges is more reflective of normalized operations and allows better comparability with peers throughout the industry. Additionally, we present ROE as well as a return on average realized common shareholders equity. We also present ROA as well as ROA less net realized and unrealized securities gains/losses. The return on average realized common shareholders equity and ROA less net realized and unrealized securities gains/losses exclude realized securities gains and losses and the Coke dividend from the numerator, and net unrealized securities gains from the denominator. We present a tangible efficiency ratio and a tangible equity to tangible assets ratio, which excludes the effect of intangible assets costs. We believe these measures are useful to investors because, by removing the effect of intangible asset costs (the level of which may vary from company to company), it allows investors to more easily compare our efficiency and capital adequacy to other companies in the industry. We also present a tangible book value per common share ratio which excludes the after-tax impact of purchase accounting intangible assets. These measures are utilized by management to assess our financial performance and capital adequacy. We provide reconcilements in Tables 32 and 33 in the MD&A for all non-U.S. GAAP measures. Certain reclassifications may be made to prior period financial statements and related information to conform them to the 2010 presentation.

INTRODUCTION

We are one of the nation s largest commercial banking organizations and our headquarters are located in Atlanta, Georgia. Our principal banking subsidiary, SunTrust Bank, offers a full line of financial services for consumers and businesses through its branches located primarily in Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. Within our geographic footprint, we operate under six business segments: Retail Banking, Diversified Commercial Banking, CRE, CIB, Mortgage, and W&IM, with the remainder in Corporate Other and Treasury. In addition to traditional deposit, credit, and trust and investment services offered by the Bank, our other subsidiaries provide mortgage banking, credit-related insurance, asset management, securities brokerage, and capital market services.

EXECUTIVE OVERVIEW

Economic and regulatory

While signs of economic recovery began in 2010, the effects of the recession continued to be felt throughout the year as economic growth was insufficient to abate elevated unemployment and to increase capital spending and consumer consumption. While the unemployment rate eased slightly during 2010, it remains elevated. Individuals and businesses were not the only ones affected during the year, as ongoing deterioration in the fiscal position of certain U.S. states and municipalities was prevalent and threatened the risk of increased local taxes and budget cuts. At the Federal government level, Congress reached a compromise and maintained lower individual tax rates for at least two years. The Federal Reserve has forecast a gradual economic recovery through 2011, and, as a result, the Federal Reserve has reaffirmed that it will maintain key interest rates at record lows for an extended period of time as long as the economic data supports these low rates. Additionally, the Federal Reserve announced towards the end of 2010 that they would further intercede in the financial markets, in the form of additional financial support, if needed. Pursuant to this, the Federal Reserve announced reinvestments of $600 billion of Treasury securities through the middle of 2011 in an attempt to maintain lower interest rates and stimulate additional growth in the economy and to spur expanded consumer and business spending. Despite the slow and uneven economic recovery, the equity markets provided some encouragement for the recovery, advancing more than 10% during 2010.

Regulatory and financial reform was a focal point during the year as the financial reform bill, known as the Dodd-Frank Act, was signed into law during the third quarter and its implementation will result in significant changes to the financial services industry. The ultimate impact to us and the financial services industry as a whole remains largely to be determined, as the work of translating legislative policies into regulation continues. However, while it is clear that financial regulation will affect our operations, compliance requirements, and, accordingly, our financial results, we believe that it will be manageable. Some of the regulations will likely have little impact on our results. Conversely, other items will have a quantifiable effect in the near term, such as new regulations regarding debit interchange fees. The regulation imposes a limitation on fees and is still in the comment period. We are hopeful that the final regulation takes into account a less narrow interpretation of the costs to operate a debit card business when establishing interchange fees. The reform bill also mandated changes in FDIC assessments and addressed a multitude of other industry supervisory matters. While this legislation dictates a number of regulatory rule changes which have the potential to adversely impact us and others within our industry, we cannot determine at the present time what the absolute impacts will be when the regulations are eventually finalized. In addition to the reform bill, during the year the Federal Reserve implemented changes to Regulation E that restricts our ability to charge our clients overdraft fees for ATM and debit card transactions. We implemented the changes to Regulation E during 2010 and the impact will continue into 2011 as clients continue to decide if they will opt-in to overdraft coverage. We are actively evaluating regulatory and legislative developments and will be in a position to comply with new requirements and take appropriate actions as warranted.

In addition to the regulatory reform items discussed above, new capital and liquidity requirements were proposed during 2010 that will impact us and our peers as they are phased in over the next several years. The Federal Reserve, under the Collins Amendment of the Dodd-Frank Act, and the BCBS, in Basel III, proposed significant changes to the regulatory capital requirements. The Federal Reserve is expected to adopt new capital requirements for certain bank holding companies that are at least as stringent as those already applicable to insured depositary institutions. As a result, certain of our capital instruments that are currently considered Tier 1 capital, will be phased out over a three year period starting on January 1, 2013. We believe this will have about a 170 basis point downward impact to our Tier 1 capital ratio over that three year period if capital doesn t increase over this same time frame as an offset to the impact. The BCBS proposed capital requirements seek to further strengthen financial institutions capital positions by mandating a higher minimum level of common equity to be held, along with a capital conservation buffer to withstand future periods of stress. Our capital position today is particularly strong, especially considering our improving credit risk profile and relatively low market risk. At present, our Tier 1 common equity is in excess of the minimum common equity and additional conservation buffer stipulated by these newly proposed requirements. Regardless, complying with these new capital requirements will likely affect our results, and the extent to which we will be affected will be known with more certainty once additional clarity is provided on the underlying details of these new requirements. These new requirements must be endorsed by the U.S. banking regulators, which is expected, and are anticipated to be phased-in through 2019 as they are currently proposed by the BCBS. In addition to the capital proposal, the BCBS also proposed standards that would increase and standardize global liquidity standards. These proposals would require us, and other financial institutions, to comply with two new liquidity measurements; the LCR and NSFR. See Liquidity Risk in this MD&A where these ratios are discussed further. Our regulators have not yet adopted these proposed standards, but the BCBS s recommended adoption dates are for the beginning of 2015 and 2018 for the respective standards. The proposed standards may lead to changes in our funding structure and/or investment portfolio, but until the proposed standards are translated into a final regulation we cannot quantify the impact.

Financial performance

While 2010 will be remembered as a year of challenge and change for our industry, we persevered through the economic and regulatory uncertainties and achieved improved financial performance compared to 2009.

- We returned to profitability during 2010 with a profit before payment of preferred dividends;
- Our low-cost deposits grew 10%, demonstrating our success in increasing client loyalty and growing market share;
- Revenue expanded and benefitted from a 34 basis point expansion in net interest margin and solid performance from several of our key businesses;
- Credit quality improved throughout the year led by declines in net charge-offs, delinquencies, and nonperforming assets;
- Capital ratios remained strong and expanded.

Throughout this economic cycle, we maintained our focus on serving our clients and managing our core business to drive better bottom line results. This focus, together with improved credit quality, resulted in net income of $189 million in 2010 compared to a net loss of $1.6 billion in 2009, which included a $751 million non-cash goodwill impairment charge as well as recessionary conditions causing elevated credit losses. Net loss available to common shareholders in 2010 was $87 million, or $0.18 per average common diluted share, which compares favorably to the net loss available to common shareholders of $1.7 billion, or $3.98 per average common share in 2009. We are pleased with the diversity of our revenue sources and continued improvement in credit quality that is driving our improved financial performance. Although our results for the year are still not near the level where we would like them to be, we are pleased with the progress that we made over the course of 2010 and our position as we enter 2011.

Asset quality improvement was broad-based in 2010, with improvements in the provision for credit losses, net charge-offs, NPLs, nonperforming assets, and early stage delinquencies. The ALLL remains elevated by historical standards at 2.58% of total loans, but declined 18 basis points compared to December 31, 2009, in part due to a $2.3 billion increase in period end loans coupled with a $146 million decrease in the ALLL due to improving asset quality trends and a reduction in the risk profile of our loan portfolio. While we experienced a reduction during the year in higher risk loan portfolio balances coupled with a broad based improvement in asset quality indicators, we are maintaining reserves that give consideration to the continued economic and real estate value uncertainty, but expect the ALLL to continue to trend downward at a pace consistent with improvements in credit quality. The provision for credit losses decreased $1.4 billion compared to 2009 while net charge-offs declined 12% during that time. For the first quarter of 2011, a stable to a modest decline in net charge-offs from fourth quarter levels is expected. Total NPLs declined 24% from 2009 as a result of charge-offs, transfers to OREO, and reduced inflows into nonaccrual. In addition, OREO declined 4% during the year as we continue to aggressively dispose of properties once we have clear title. We expect NPLs and nonperforming assets to continue to modestly decline in the near-term, subject to economic conditions remaining stable or improving. Our accruing restructured loan portfolio, which is primarily related to mortgage and consumer loans, increased 59% from 2009. The increase in accruing restructured loans is due to us taking proactive steps to modify loans in order to mitigate losses related to borrowers experiencing financial difficulty. As a result of the modifications, the current portfolio exhibits strong payment performance with 86% current on principal and interest payments at December 31, 2010. Total growth in this portfolio has slowed during the latter half of 2010 as a result of a reduced inflow of newly delinquent loans and fewer modifications of more seriously delinquent loans. A key leading indicator of asset quality, particularly for consumer loans, is early stage delinquencies. This leading indicator of future asset quality has fallen significantly since the beginning of 2009. During this time, the economy and employment conditions have improved somewhat, but remain sluggish overall. As a result, we do not expect further improvement in early stage delinquencies until economic conditions improve. See additional discussion of credit and asset quality in the Loans, Allowance for Credit Losses, and Nonperforming Assets, sections of this MD&A.

Our capital remained strong during 2010, as evidenced by the increases in our capital ratios. Our Tier 1 capital ratio was 13.67%, which was an increase from 12.96% at December 31, 2009. Our Tier 1 common equity ratio increased to 8.08% compared to 7.67% at December 31, 2009. Our total capital ratio was stable at 16.54% compared to 16.43% at December 31, 2009. With strong capital, more clarity on capital standards, lower risk, ample liquidity, and improved earnings, we believe that we are well-positioned to repay TARP at the appropriate time and in a fashion that makes the most sense from both shareholder and regulatory perspectives. We have been and will continue to invest in our people and businesses to support future growth. At the same time, we recognize the value of returning capital to shareholders, so in that regard, our priorities are repaying TARP and increasing the common dividend. See additional discussion of our liquidity and capital position in the Liquidity Risk and Capital Resources sections of this MD&A.

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During the year, average loans declined 6% compared to the 2009 average loan balance, with the majority of the decline due to a reduction in our exposure to real estate-related assets and commercial loans, as well as due to weak loan demand during the year. While the total average balances have declined, our risk profile during the year has also improved as much of the decline has been in higher-risk loans while growth in certain portfolios included the addition of lower-risk loans that have attractive return and credit characteristics including an increase in government guaranteed loans. Despite recent soft loan demand we remain focused on extending credit to qualified borrowers as businesses and consumers work through the economic downturn. During 2010, we extended approximately $74.3 billion in new loan originations, commitments, and renewals of commercial and consumer loans to our clients.

Consumer and commercial deposits increased during the year and a positive shift in mix to lower cost deposits was prevalent as average balance increases were driven by lower cost noninterest-bearing and money market accounts, which increased from 2009 by 8% and 22%, respectively, providing $8.9 billion in combined average growth. Partially offsetting this growth was the decline in higher cost CD balances, which decreased an average of $6.3 billion during 2010. Due to the growth seen during 2010 in core deposits, our liquidity was enhanced. Additionally, this increase in low cost deposits has enabled us to reduce our higher-cost funding sources, helping to drive significant reductions in our funding costs and improvement in net interest margin. While we believe that a portion of the low-cost deposit growth is attributable to clients holding higher levels of liquidity, we also believe that the growth is a direct result of investments that we have made to enhance our clients banking experience and to drive household market share growth.

Our client-focused revenue generation strategies, lower cost funding mix, improved asset quality, and continued expense management discipline contributed to improved operating trends as seen in higher net interest margin, higher core fee income, and controlled operating expenses. Total revenue, on an FTE basis, increased 5% compared to the prior year due to increased earning assets, stable fee based revenue, particularly investment banking revenue, and expanded net interest margin. Net interest income, on an FTE basis, increased 8%, compared to 2009. The increase in net interest income is due to lower funding costs, improved funding mix, and a reduction in long-term debt. As a result, our net interest margin increased to 3.38% for the year ended December 31, 2010 from 3.04% in 2009. Noninterest income remained stable during 2010, most notably due to increases in trading income offset by lower mortgage production income and lower service charges on deposit accounts. Noninterest expense decreased 10% compared to 2009, driven primarily by a noncash goodwill impairment charge taken during 2009. When excluding that impairment charge, noninterest expense increased 2% in 2010 when compared to 2009. This increase was driven by increases in outside processing and software, marketing expenses, and compensation, as we sought to balance investments in our business with expense discipline. Consistent with our focus to invest in our people and grow the business, the increases in these categories related specifically to hiring in technology, mortgage, and client support areas, investing in client acquisition and risk management technology, and more broadly related to higher transaction volumes and additional investments focused on growth of our business. Partially offsetting these increases were declines in credit-related costs of $28 million. We also experienced higher losses on debt extinguishment compared to 2009 as we proactively reduced our dependency on higher cost funding as a result of excess liquidity. See additional discussion of our financial performance in the Consolidated Financial Results section of this MD&A.

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CONSOLIDATED FINANCIAL RESULTS

Table 1- Consolidated Daily Average Balances, Income/Expense And Average Yields Earned And Rates Paid

(Dollars in millions; yields on taxable-equivalent basis)	**2010** Average Balances	Income/ Expense	Yields/ Rates	2009 Average Balances	Income/ Expense	Yields/ Rates	2008 Average Balances	Income/ Expense	Yields/ Rates
Assets									
Loans:[1,6]									
Real estate residential mortgage 1-4 family	**$29,058**	**$1,553**	**5.35** %	$29,588	$1,723	5.82 %	$31,859	$2,005	6.29 %
Real estate construction	**3,402**	**126**	**3.69**	5,991	198	3.31	10,828	576	5.32
Real estate home equity lines	**14,912**	**503**	**3.37**	15,685	523	3.34	15,205	797	5.24
Real estate commercial	**14,578**	**593**	**4.07**	15,573	639	4.11	13,969	790	5.65
Commercial - FTE[2]	**32,788**	**1,828**	**5.57**	36,458	1,820	4.99	38,132	2,090	5.48
Credit card	**1,058**	**89**	**8.39**	984	74	7.47	863	34	4.00
Consumer - direct	**5,812**	**251**	**4.32**	5,101	207	4.06	4,542	254	5.60
Consumer - indirect	**7,530**	**423**	**5.62**	6,594	418	6.34	7,262	460	6.33
Nonaccrual[3]	**4,787**	**39**	**0.81**	5,067	36	0.72	2,773	25	0.92
Total loans	**113,925**	**5,405**	**4.74**	121,041	5,638	4.66	125,433	7,031	5.61
Securities available for sale:									
Taxable	**24,994**	**785**	**3.14**	18,960	790	4.17	12,220	731	5.98
Tax-exempt - FTE[2]	**783**	**42**	**5.34**	1,003	55	5.46	1,038	63	6.07
Total securities available for sale - FTE	**25,777**	**827**	**3.21**	19,963	845	4.23	13,258	794	5.99
Funds sold and securities purchased under agreements to resell	**969**	**1**	**0.08**	794	2	0.27	1,318	25	1.91
Loans held for sale	**3,295**	**136**	**4.14**	5,228	233	4.45	5,106	290	5.68
Interest-bearing deposits	**26**		**0.17**	25	-	0.91	25	1	3.18
Interest earning trading assets	**3,195**	**90**	**2.79**	3,857	115	2.99	7,609	304	4.00
Total earning assets	**147,187**	**6,459**	**4.39**	150,908	6,833	4.53	152,749	8,445	5.53
Allowance for loan and lease losses	**(3,045)**			(2,706)			(1,815)		
Cash and due from banks	**4,821**			4,844			3,093		
Other assets	**18,268**			17,355			17,270		
Noninterest earning trading assets	**2,913**			3,429			2,642		
Unrealized gains on securities available for sale, net	**2,231**			1,612			1,909		
Total assets	**$172,375**			$175,442			$175,848		
Liabilities and Shareholders Equity									
Interest-bearing deposits:									
NOW accounts	**$24,668**	**$58**	**0.24** %	$23,601	$99	0.42 %	$21,081	$253	1.20 %
Money market accounts	**38,893**	**227**	**0.58**	31,864	315	0.99	26,565	520	1.96
Savings	**4,028**	**9**	**0.22**	3,664	10	0.27	3,771	16	0.43
Consumer time	**14,232**	**267**	**1.87**	16,718	479	2.87	16,770	639	3.81
Other time	**9,205**	**189**	**2.05**	13,068	382	2.92	12,197	479	3.92
Total interest-bearing consumer and commercial deposits	**91,026**	**750**	**0.82**	88,915	1,285	1.45	80,384	1,907	2.37
Brokered deposits	**2,561**	**110**	**4.29**	5,648	154	2.69	10,493	392	3.73
Foreign deposits	**355**		**0.13**	434	1	0.12	4,250	79	1.85
Total interest-bearing deposits	**93,942**	**860**	**0.92**	94,997	1,440	1.52	95,127	2,378	2.50
Funds purchased	**1,226**	**2**	**0.19**	1,670	3	0.19	2,622	52	1.96
Securities sold under agreements to repurchase	**2,416**	**4**	**0.15**	2,483	5	0.18	4,961	79	1.59
Interest-bearing trading liabilities	**833**	**30**	**3.58**	487	20	4.14	786	27	3.46

Other short-term borrowings	**3,014**	**13**	**0.43**	2,704	15	0.54	3,057	55	1.80
Long-term debt	**16,096**	**580**	**3.60**	20,119	761	3.78	22,893	1,117	4.88
Total interest-bearing liabilities	**117,527**	**1,489**	**1.27**	122,460	2,244	1.83	129,446	3,708	2.86
Noninterest-bearing deposits	**26,103**			24,249			20,949		
Other liabilities	**4,097**			4,387			5,061		
Noninterest-bearing trading liabilities	**1,814**			2,060			1,796		
Shareholders equity	**22,834**			22,286			18,596		
Total liabilities and shareholders equity	**$172,375**			$175,442			$175,848		
Interest Rate Spread			**3.12 %**			2.70 %			2.67 %
Net Interest Income - FTE[4]		**$4,970**			$4,589			$4,737	
Net Interest Margin[5]			**3.38 %**			3.04 %			3.10 %

[1]Interest income includes loan fees of $146 million, $148 million, and $142 million for the three years ended December 31, 2010, 2009, and 2008, respectively. Nonaccrual loans are included in average balances and income on such loans, if recognized, is recorded on a cash basis.

[2]Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated $116 million, $123 million, and $117 million for the three years ended December 31, respectively.

[3]Accruing TDRs were classified in nonaccruals during prior periods. Due to sustained performance, accruing TDRs have been reclassified to the applicable loans category where the related interest income is being classified in all periods presented.

[4]The Company obtained derivative instruments to manage the Company s interest-sensitivity position that increased net interest income $617 million, $488 million and $181 million in the periods ended December 31, 2010, 2009 and 2008, respectively.

[5]The net interest margin is calculated by dividing net interest income FTE by average total earning assets.

[6]Loan categories in this table are presented using pre-adoption classifications due to an inability to produce average balances using post-adoption classifications.

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Table 2 - Analysis of Changes in Net Interest Income [1]

(Dollars in millions on a taxable-equivalent basis)	**2010 Compared to 2009 Increase (Decrease) Due to** Volume	Rate	Net	2009 Compared to 2008 Increase (Decrease) Due to Volume	Rate	Net
Interest Income						
Loans:						
Real estate 1-4 family	**($31)**	**($138)**	**($169)**	($138)	($144)	($282)
Real estate construction	**(93)**	**21**	**(72)**	(205)	(173)	(378)
Real estate home equity lines	**(25)**	**4**	**(21)**	24	(298)	(274)
Real estate commercial	**(40)**	**(6)**	**(46)**	83	(233)	(150)
Commercial - FTE[2]	**(193)**	**201**	**8**	(89)	(181)	(270)
Credit card	**6**	**9**	**15**	5	34	39
Consumer - direct	**30**	**14**	**44**	29	(76)	(47)
Consumer - indirect	**56**	**(51)**	**5**	(42)	-	(42)
Nonaccrual	**(2)**	**5**	**3**	17	(6)	11
Securities available for sale:						
Taxable	**217**	**(222)**	**(5)**	324	(265)	59
Tax-exempt [2]	**(12)**	**(1)**	**(13)**	(2)	(6)	(8)
Funds sold and securities purchased under agreements to resell	**1**	**(2)**	**(1)**	(7)	(16)	(23)
Loans held for sale	**(81)**	**(15)**	**(96)**	7	(64)	(57)
Interest-bearing deposits	**-**	**-**	**-**	-	(1)	(1)
Interest earning trading assets	**(19)**	**(7)**	**(26)**	(125)	(64)	(189)
Total interest income	**(186)**	**(188)**	**(374)**	(119)	(1,493)	(1,612)
Interest Expense						
NOW accounts	**4**	**(45)**	**(41)**	27	(181)	(154)
Money market accounts	**61**	**(148)**	**(87)**	89	(295)	(206)
Savings	**1**	**(2)**	**(1)**	-	(6)	(6)
Consumer time	**(63)**	**(149)**	**(212)**	(2)	(158)	(160)
Other time	**(97)**	**(97)**	**(194)**	32	(128)	(96)
Brokered deposits	**(108)**	**64**	**(44)**	(150)	(87)	(237)
Foreign deposits	**-**	**-**	**-**	(38)	(40)	(78)
Funds purchased	**(1)**	**-**	**(1)**	(14)	(34)	(48)
Securities sold under agreements to repurchase	**-**	**(1)**	**(1)**	(27)	(48)	(75)
Interest-bearing trading liabilities	**13**	**(3)**	**10**	(12)	5	(7)
Other short-term borrowings	**1**	**(3)**	**(2)**	(6)	(35)	(41)
Long-term debt	**(147)**	**(35)**	**(182)**	(124)	(232)	(356)
Total interest expense	**(336)**	**(419)**	**(755)**	(225)	(1,239)	(1,464)
Net change in net interest income	**$150**	**$231**	**$381**	$106	($254)	($148)

[1]Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate, while rate change is change in rate times the previous volume. The rate/volume change, change in rate times change in volume, is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

[2]Interest income includes the effects of the taxable-equivalent adjustments to increase tax-exempt interest income to a taxable-equivalent basis.

Net Interest Income/Margin

Net interest income, on an FTE basis, was $5.0 billion during 2010, an increase of $381 million, or 8%, from 2009. This increase was driven mainly by a continued positive trend in net interest margin, which increased 34 basis points to 3.38% in 2010 from 3.04% in 2009. Earning asset yields declined 14 basis points compared to 2009 from 4.53% to 4.39%, but the cost of interest-bearing liabilities decreased 56 basis points over the same period. The biggest contributors to the net interest margin increase were growth in low cost deposits, lower rates paid on time deposits, and a reduction in higher-cost long-term debt coupled with a strong focus on loan pricing and higher commercial loan yields due to our commercial loan swap position. These favorable margin contributors were partially offset by a reduction in residential mortgage loan yields and an increase in lower-yielding securities.

We currently expect margin to be relatively stable in the near-term. Risks to this expectation include the potential impacts of a prolonged low rate environment, yield curve flattening, a shift in deposit mix and volume, and loan pricing, while opportunities include continued deposit re-pricing, further steepening of the yield curve, and lower nonperforming assets. As a result of the consolidation of off-balance sheet entities under new accounting guidance effective January 1, 2010, we realized an additional $45 million in net interest income during the year. The consolidations resulted in the re-characterization of fees earned by certain of our newly consolidated entities from noninterest income to net interest income. The effect of this consolidation resulted in a small dilutive impact to net interest margin. Previously, we recorded income on these off-balance sheet entities primarily within investment banking income in noninterest income.

Average earning assets decreased $3.7 billion, or 2%, from 2009, while average interest-bearing liabilities declined $4.9 billion, or 4%. Average loans decreased $7.1 billion, or 6%. The decline in loans was attributable to a $3.7 billion, or 10%, reduction in commercial loans, a $2.6 billion, or 43%, reduction in real estate construction loans, a $995 million, or 6%, reduction in real estate commercial, and a $773 million, or 5%, reduction in real estate home equity loans. These decreases were partially offset by increases of $936 million, or 14%, in consumer-indirect loans, driven by purchases of high quality auto loan portfolios and $711 million, or 14%, in consumer-direct loans. Average LHFS were $3.3 billion, a decrease of $1.9 billion, or 37%, from 2009. The decrease in LHFS occurred as a result of decreased mortgage loan production refinance activity during the year, as well as a reduction in student loans held for sale due to recently enacted legislation eliminating our ability to originate and sell this product. Reduced demand in borrowing among credit-worthy clients coupled with our efforts to reduce higher-risk loan portfolios has resulted in an overall decrease in loan balances, which coupled with higher deposit levels, has led us to seek other investment opportunities, causing an increase in average securities AFS. Average securities AFS increased $5.8 billion, or 29%, due to increases of $4.5 billion in U.S. Treasury and agency securities, $930 million in MBS, and $711 million in ABS. These positions were added during a declining rate environment resulting in a 102 basis point decline in the weighted average yield on securities AFS compared to 2009. See additional discussion in the Securities Available for Sale section included in this MD&A for more information on the repositioning of our securities AFS portfolio.

Our loan portfolio yielded 4.74% for the year, up 8 basis points from 2009. Since a large percentage of our commercial loans are variable rate indexed to one month LIBOR, we utilize receive fixed/pay floating interest rate swaps to manage interest rate risk. As of December 31, 2010, the outstanding notional balance of swaps was $15.9 billion, which qualified as cash flow hedges on variable rate commercial loans compared to $18.6 billion as of December 31, 2009. Swap income increased from $539 million in 2009 to $617 million in 2010, primarily due to increased realized gains on terminated swaps during 2010 and one month LIBOR being lower in 2010 compared to 2009. While the underlying loans swapped to fixed rates are classified as both CRE and commercial, all of the swap income is recorded as interest on commercial loans. The classification of all swap income in the commercial loan category and the declining balance of average commercial loans produced an increase in reported commercial loan yields as compared to a decrease in underlying rate indices. In addition, loan-related interest income has been augmented by improved risk-based pricing discipline.

Average consumer and commercial deposits increased $4.0 billion, or 4%, in 2010 compared to 2009. This growth consisted of increases of $7.0 billion, or 22%, in money market accounts, $1.1 billion, or 5%, in NOW accounts, and $1.9 billion, or 8%, in demand deposits, partially offset by a decline of $6.3 billion, or 21%, in consumer and commercial time deposits. Low cost deposit growth was the result of marketing campaigns, competitive pricing and clients increased preference for more liquid products. However, a portion of the deposit growth is related to reduced client demand for sweep accounts due to the low interest rate environment. The overall growth in consumer and commercial deposits allowed for a reduction in other funding sources, including $4.0 billion of long-term debt and $3.1 billion of brokered deposits. Overall, average interest-bearing liabilities declined $4.9 billion, or 4%. We continue to pursue deposit growth initiatives to increase our presence in specific markets within our footprint. Competition for deposits remains strong, and as a result, deposit pricing pressure remains across our footprint. Despite these challenging market conditions, we have used a combination of regional and product-specific pricing initiatives to balance margin and volume, while still growing our average deposit balances. While we acknowledge some of this growth is seasonal and influenced by the current economic environment, we also believe that the growth is the direct result of investments that we have made to enhance our clients banking experience and to drive household and market share growth.

During 2010, the interest rate environment was characterized by flat short-term rates and lower medium- and long-term rates, resulting in a flatter yield curve versus 2009. More specifically, the Fed funds target rate averaged 0.25%, unchanged from last year, the Prime rate averaged 3.25%, unchanged from last year, one-month LIBOR averaged 0.27%, a decrease of 6 basis points, three-month LIBOR averaged 0.34%, a decrease of 31 basis points, five-year swaps averaged 2.10%, a decrease of 55 basis points, and ten-year swaps averaged 3.18%, a decrease of 26 basis points.

Foregone interest income from NPLs reduced net interest margin by 20 basis points for 2010, compared to 21 basis points in 2009, as average nonaccrual loans decreased $280 million, or 6% from 2009. See additional discussion of our expectations for future levels of credit quality in the Allowance for Credit Losses , and Nonperforming Assets sections of this MD&A. Tables 1 and 2 contain more detailed information concerning average balances, yields earned, and rates paid.

Table 3 - Noninterest Income

	Year Ended December 31		
(Dollars in millions)	**2010**	2009	2008
Service charges on deposit accounts	**$760**	$848	$904
Other charges and fees	**534**	523	511
Trust and investment management income	**503**	486	592
Card fees	**376**	324	308
Mortgage production related income	**127**	376	171
Mortgage servicing related income/(loss)	**358**	330	(212)
Investment banking income	**313**	272	237
Retail investment services	**205**	218	289
Net securities gains	**191**	98	1,073
Trading account profits/(losses) and commissions	**173**	(41)	38
Gain from ownership in Visa	**-**	112	86
Gain on sale of businesses	**-**	-	198
Net gain on sale/leaseback of premises	**-**	-	37
Other noninterest income	**189**	164	241
Total noninterest income	**$3,729**	$3,710	$4,473

Noninterest Income

Noninterest income increased by $19 million, essentially flat, versus the year ended December 31, 2009. The increase was attributable to increases in investment banking income, trading account profits/(losses) and commissions, and card fees, largely offset by a decline in mortgage production related income and service charges on deposit accounts.

Investment banking income increased by $41 million, or 15%, versus the year ended December 31, 2009. Strong loan syndication, bond originations, and mergers and acquisitions revenues drove the increase, which was partially offset by the re-characterization of fees earned by certain of our newly consolidated entities from noninterest income to net interest income.

Trading account profits/(losses) and commissions improved during the year ended December 31, 2010 by $214 million, primarily due to mark to market valuations on our public debt and related hedges carried at fair value. We recorded valuation gains of $36 million for the year December 31, 2010 on our public debt versus losses of $153 million during the year ended December 31, 2009. These market valuation changes were driven by changes in our credit spreads and changes in interest rates. Additionally, as liquidity returned to the market for certain illiquid assets, including ARS, net market valuation adjustments and net gains on the disposition of such assets improved by $47 million versus the year ended December 31, 2009. Other core trading results were essentially flat year over year. We do not currently believe that the legislative and regulatory changes related to derivatives will have a material impact on our revenue related to trading account activities.

Net securities gains increased by $93 million versus the year ended December 31, 2009. The gains were the result of certain portfolio repositioning initiatives undertaken during 2010. See Securities Available for Sale in this MD&A for further discussion of our portfolio repositioning initiatives. Additionally, we recorded $2 million in credit-related OTTI losses on securities AFS during the year ended December 31, 2010 versus $20 million in losses during the year ended December 31, 2009.

Card fees increased by $52 million, or 16%, versus the year ended December 31, 2009. Card fees increased due to check card interchange fees. Growth was driven by household expansion, higher product penetration, and increasing consumer usage patterns which will help offset the potential impact of lower interchange rates. However, the Federal Reserve s recent proposal on debit card interchange could significantly impact this source of revenue going forward. For 2010, we recorded approximately $332 million of interchange income; our current estimate is that provisions of the Dodd-Frank Act may cause future annual interchange income to decline by as much as 75% from 2010 levels, beginning in the second half of 2011. However, this estimate is based upon the current proposal and does not take into account any actions that we will pursue to alter our fee structure to clients or to alter the costs of operating the debit card business.

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Trust and investment management income increased by $17 million, or 3%, versus the year ended December 31, 2009. The increase was attributable to higher market valuations on managed equity assets and fixed income asset inflows, partially offset by lower money market mutual fund revenue.

Mortgage servicing related income increased $28 million, or 8%, versus the year ended December 31, 2009, due to higher servicing fees, partially offset by the negative impact of increased prepayments during 2010.

Mortgage production related income decreased by $249 million, or 66%, versus the year ended December 31, 2009. The decrease was due to a $21 billion, or 42%, decline in loan production. The provision for mortgage repurchase related losses for the year ended December 31, 2010 increased by 3% to $456 million versus $444 million for the year ended December 31, 2009. As of December 31, 2010, the reserve for mortgage repurchase losses was $265 million, an increase of $65 million versus the prior year. The increase in the reserve was due to a continued increase in repurchase requests during 2010 and expected elevated levels for the foreseeable future.

We expect future repurchase related losses and reserves will be largely driven by the volume of repurchase requests received from the GSEs, which have exhibited considerable month to month volatility. To date, the majority of our repurchase requests have been associated with 2006 and 2007 vintages, which produce higher losses. We expect that normal seasoning patterns for origination vintages, over time, will shift new repurchase requests to newer production vintages which have a lower risk profile. As that occurs, we expect lower aggregate request volumes and lower loss frequencies and severities, as the newer vintages exhibit more favorable characteristics, such as higher FICOs and lower original LTVs, as they were originated during or after periods that experienced the most significant home price depreciation. If our assumptions are correct, we expect a favorable impact on noninterest income from curtailed mortgage repurchases losses in 2011.

With respect to non-agency loan sales, we have sold $30.3 billion of such loans since 2005, with an insignificant amount of such sales occurring after 2007. Of this amount, we estimate that $16.7 billion is still outstanding. In addition to outstanding loans, our repurchase exposure includes loans no longer outstanding due to foreclosures or short sales. To date, we have received a modest number of repurchase requests regarding such loans, which have not resulted in any material repurchase related losses. While our losses have not been significant, we have been factoring our non-agency loss experience into our mortgage repurchase reserve process. However, if such repurchase requests increase materially in the future, we could suffer additional losses. See Part I, Item 1A, Risk Factors to this Annual Report on Form 10-K and Note 18, Reinsurance Arrangements and Guarantees Loan Sales, to the Consolidated Financial Statements for additional information.

Service charges on deposit accounts decreased by $88 million, or 10%, versus the year ended December 31, 2009. The decreases were attributable to the implementation of Regulation E changes and a voluntary decision to eliminate overdraft fees on very small individual transactions, as well as reducing the maximum number of daily overdraft fees. The voluntary changes were in place for the entire third quarter while the Regulation E changes became effective in the middle of the third quarter. Until clients have fully exercised their opt-in opportunity and reacted to our client satisfaction initiatives around overdraft fees, we expect service charge income to decline over the next few quarters, with the reduction gradually moderating over time. The effects of adopting Regulation E and our voluntary overdraft changes impacted our fourth quarter results and are expected to have a full-year impact within the range of $120 to $170 million. This estimate, however, does not consider any mitigating actions that we may take.

Retail investment services income decreased by $13 million, or 6%, versus the year ended December 31, 2009. The decrease was attributable to declines to fixed annuity revenue, partially offset by increased recurring brokerage revenue linked to the equity markets and increased transactional revenue from variable annuity and mutual fund sales.

Other income increased by $25 million, or 15%, versus the year ended December 31, 2009. The increase was largely attributable to a $24 million reduction in net losses recognized on certain private equity investments as compared to the prior year.

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Table 4 - Noninterest Expense

	Year Ended December 31		
(Dollars in millions)	**2010**	2009	2008
Employee compensation	**$2,364**	$2,258	$2,327
Employee benefits	**457**	542	434
Personnel expense	**2,821**	2,800	2,761
Other real estate expense	**300**	244	105
Credit and collection services	**279**	259	156
Operating losses	**83**	99	446
Mortgage reinsurance	**27**	115	180
Credit-related costs	**689**	717	887
Outside processing and software	**638**	579	493
Net occupancy expense	**361**	357	347
Regulatory assessments	**265**	302	55
Marketing and customer development	**177**	152	372
Equipment expense	**174**	172	203
Consulting and legal	**84**	57	59
Postage and delivery	**83**	84	90
Net loss on debt extinguishment	**70**	39	12
Communications	**64**	67	70
Other staff expense	**55**	51	70
Amortization of intangible assets	**51**	56	76
Operating supplies	**47**	41	44
Impairment of goodwill/intangible assets	**-**	751	45
Visa litigation	**-**	7	(33)
Merger expense	**-**	-	13
Other expense	**332**	330	315
Total noninterest expense	**$5,911**	$6,562	$5,879

Noninterest Expense

Noninterest expense decreased by $651 million, or 10%, versus the year ended December 31, 2009. Included in noninterest expense for the year ended December 31, 2009 was a $751 million non-cash goodwill impairment charge recognized in the first quarter of 2009. Excluding the impact of the goodwill impairment charge, noninterest expense increased by $100 million, or approximately 2%, versus the year ended December 31, 2009. The impact of excluding the non-cash goodwill impairment charge provides a more meaningful comparison to the results in the current year by removing this nonrecurring item. The increase in 2010 expenses excluding the prior year goodwill impairment charge was reflective of our desire to balance investments in the business with our expense discipline. Specifically, the increase in core noninterest expense was primarily attributable to higher outside processing and software costs, increased marketing and customer development costs, higher consulting and legal expenses, higher personnel expense, and increased net loss on debt extinguishment, partially offset by a decline in regulatory expenses and credit-related costs.

Credit-related costs decreased by $28 million, or 4%, versus the year ended December 31, 2009. The decrease was due to decline in mortgage reinsurance losses of $88 million, partially offset by an increase in other real estate expenses of $56 million. Mortgage reinsurance expenses relate to the activities of our mortgage reinsurance guaranty subsidiary, Twin Rivers, whose loss exposure arises from third party mortgage insurers transferring a portion of their first loss exposure when losses by mortgage origination year exceed certain thresholds. Since the first quarter of 2009, our exposure to reinsurance losses has been limited to incremental insurance premium contributions, which has caused the steady decline in this expense as we ceased writing new contracts in 2009. Other real estate expense increased compared to 2009 primarily due to an increase in net losses on the sale of OREO properties.

Regulatory assessments decreased by $37 million, or 12%, compared to the year ended December 31, 2009, attributable to the decline in FDIC insurance premiums, primarily due to the payment of the special assessment levied on all banks during the second quarter of 2009, offset by higher deposit balances in 2010. With respect to the current FDIC deposit insurance proposal, the calculation will be based on net assets, not on deposits, which will raise our assessment base beginning in the second quarter of 2011; however, we expect that over time, the higher assessment base will be mitigated as improving operating trends, such as asset quality and earnings, favorably impact future premium calculations. While all of this may lead to some volatility in our quarterly expense, we do not expect a significant increase in our 2011 expense base.

Personnel expense increased by $21 million, or 1%, versus the year ended December 31, 2009. The increase was attributable to higher salaries, incentive compensation, and contract labor expenses, offset by a reduction in pension and other postretirement benefit expenses as a result of improved performance in the underlying plan assets in 2010. Full-time equivalent employees increased by 1,055 compared to December 31, 2009, with the majority of the increase resulting from hiring within our technology, mortgage, retail branches, and client support areas. These increases are a direct result of our commitment to investing in our business. Higher incentive compensation expense resulted from the strong revenue performance of certain business lines during 2010.

Outside processing and software costs increased by $59 million, or 10%, versus the year ended December 31, 2009, related to increased transaction volumes along with client acquisition and risk management technology investments made to enhance the client experience.

Marketing and customer development costs increased by $25 million, or 16%, versus the year ended December 31, 2009. The increase was attributable to higher promotional and advertising spending and more broadly as a result of investments made during the year to aid in the overall growth of our business.

Consulting and legal expenses increased by $27 million, or 47%, versus the year ended December 31, 2009. The increase was attributable to increases in litigation fees and expenses, coupled with an increase in consulting activities.

Net losses on debt extinguishment increased by $31 million versus the year ended December 31, 2009. Net losses on debt extinguishment in the current year were primarily due to early termination fees on the extinguishments of $1.7 billion in FHLB borrowings, in addition to the fees paid to repurchase $750 million of our debt in a tender offer during the third quarter. Net losses in the prior year primarily resulted from early termination fees for FHLB advances repaid during the year, net of gains on extinguishment of other long-term debt.

Provision for Income Taxes

The provision for income taxes includes both federal and state income taxes. In 2010, the provision for income taxes was a benefit of $185 million, compared to a benefit of $898 million in 2009. The 2010 effective tax rate was primarily driven by net favorable permanent tax items such as tax exempt interest income and tax credits significantly exceeding the positive pre-tax earnings. The 2009 effective tax rate was primarily attributable to the pre-tax loss and further increased by net favorable permanent tax items such as tax-exempt interest income, federal tax credits and the release of UTBs related to the completion of audit examinations by several taxing authorities; it was, however, reduced by a non-tax deductible goodwill impairment. For additional information on the reconciliation of the effective tax rate, refer to Note 15, Income Taxes, to the Consolidated Financial Statements.

Loans

As discussed in Note 1, Significant Accounting Policies, to the Consolidated Financial Statements, we recently adopted new accounting guidance that requires additional disclosures about the credit quality of our loan portfolios and the credit reserves held against them. These new disclosures are intended to 1) describe the nature of credit risk inherent in our loan portfolio, 2) determine how we analyze and assess that risk in arriving at an adequate and appropriate ALLL, and 3) explain the changes in the ALLL and reasons for those changes. Additionally, the new disclosures are required to be made on a disaggregated basis by loan portfolio segment and/or by type of loan. A portfolio segment is defined as the level at which we develop and document our method for determining our ALLL. Loan types are further categories of our portfolio segments. In conjunction with adopting the new accounting guidance, we have adjusted prior year loan classifications to align with the current year loan classifications. While the reclassification had no effect on the carrying value of our LHFI or LHFS, SEC regulations require us, in some instances, to present five years of comparable data where trend information may be deemed relevant, in which case we have provided the pre-adoption loan classifications due to the inability to restate all prior periods under the new loan classifications.

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Under the post-adoption classification, we have included commercial and construction loans secured by owner-occupied properties as part of commercial and industrial loans, as the primary source of loan repayment for owner-occupied properties is business income and not real estate operations.

Table 5 - Loan Portfolio by Types of Loans (Post-Adoption)

(Dollars in millions)	**December 31, 2010**	December 31, 2009	% Change
Commercial loans:			
Commercial & industrial[1]	**$44,753**	$44,008	2
Commercial real estate	**6,167**	6,694	(8)
Commercial construction	**2,568**	4,984	(48)
Total commercial loans	**53,488**	55,686	(4)
Residential loans:			
Residential mortgages - guaranteed	**4,520**	949	376
Residential mortgages - nonguaranteed[2]	**23,959**	25,847	(7)
Home equity products	**16,751**	17,783	(6)
Residential construction	**1,291**	1,909	(32)
Total residential loans	**46,521**	46,488	-
Consumer loans:			
Guaranteed student loans	**4,260**	2,786	53
Other direct	**1,722**	1,484	16
Indirect	**9,499**	6,665	43
Credit cards	**485**	566	(14)
Total consumer loans	**15,966**	11,501	39
LHFI	**$115,975**	$113,675	2 %
LHFS	**$3,501**	$4,670	(25) %

[1]Includes $4 million and $12 million of loans previously acquired from GB&T and carried at fair value at December 31, 2010 and 2009, respectively.

[2]Includes $488 million and $437 million of loans carried at fair value at December 31, 2010 and 2009, respectively.

Loans Held for Investment

LHFI increased by $2.3 billion, or 2%, during the year ended December 31, 2010. The increase was attributable to an increase in consumer loans, partially offset by a decrease in commercial loans. Residential loans were relatively flat year over year, although the risk profile of the residential profile improved during the period.

Commercial loans decreased by $2.2 billion, or 4%, during the year ended December 31, 2010, which was largely attributable to a decline in commercial construction loans. Commercial construction loans decreased by $2.4 billion, or 48%, primarily as a result of our efforts to reduce risk levels by aggressively managing existing construction exposure and significantly limiting new production. Partially offsetting this decline was growth from our asset-backed commercial paper conduit, which we consolidated effective January 1, 2010 as a result of new accounting guidance. Line of credit utilization rates among our corporate clients have stabilized, although they remain low overall. We continue to expect that broad-based commercial loan growth will return with an improving economy. However, the evidence to date suggests that growth will occur gradually. As this occurs, we will continue to grow commercial loans in client segments and products that offer opportunities.

Residential loans increased by $33 million, or less than 1%, during the year ended December 31, 2010. However, the composition of the residential loan portfolio changed during the year, as we continued to reduce our exposure to higher risk loans. Nonguaranteed residential mortgages declined by $1.9 billion, or 7%, due to paydowns and charge-offs. Additionally, we reduced our home equity loan portfolio by $1.0 billion, or 6%, and our residential construction portfolio by $618 million, or 32%, while increasing the amount of government guaranteed mortgages by $3.6 billion, or 376%, as part of our efforts to reduce overall risk and further diversify our loan portfolio.

Consumer loans increased by $4.5 billion, or 39%, during the year ended December 31, 2010. The increase was primarily attributable to a $1.5 billion increase in guaranteed student loans, which included the $0.5 billion impact of consolidating a student loan trust during the year, and a $2.8 billion increase in indirect consumer loans, which included purchases of $1.7 billion in automobile loans during the year. We have been opportunistic with consumer loan purchases completed to date, as we have found them to have attractive returns and credit characteristics.

Loans Held for Sale

LHFS decreased by $1.2 billion, or 25%, during year ended December 31, 2010. The decline is attributable to recently enacted legislation that prohibits us from originating federally-guaranteed student loans and to lower levels of mortgage loan originations, partially offset by the addition of LHFS related to a CLO entity that was consolidated as of January 1, 2010.

Table 6 - Loan Portfolio by Types of Loans (Pre-Adoption)