Activision Blizzard, Inc.
Form DEF 14A
April 20, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

ACTIVISION BLIZZARD, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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3100 Ocean Park Boulevard
Santa Monica, California 90405

April 20, 2010

Notice of 2010 Annual Meeting of Stockholders

Dear Stockholder:

You are cordially invited to attend the 2010 Annual Meeting of Stockholders of Activision Blizzard, Inc. The meeting will be held on Thursday, June 3, 2010, beginning at 9:00 a.m., Pacific Daylight Time, at the offices of Equity Office at 3200 Ocean Park Boulevard, Santa Monica, California, 90405.

Information about the meeting and the matters on which stockholders will act is included in the accompanying proxy statement.

The purposes of this year's annual meeting are to:

1. elect 11 directors; and

2. act on a proposal to approve our 2008 Incentive Plan, as amended and restated to increase the maximum number of shares of Activision Blizzard, Inc.'s common stock authorized for issuance pursuant to awards granted under the plan and the maximum number of shares that may be issued pursuant to certain types of awards under the plan, to revise certain provisions relating to the granting of incentive compensation intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended, and to amend certain limitations with respect to the granting of awards under the plan.

The Board of Directors of Activision Blizzard, Inc. has fixed April 6, 2010 as the record date for determining the stockholders entitled to receive notice of, and to vote at, the annual meeting.

It is important that your shares be represented at the annual meeting. Whether or not you plan to attend the meeting, you are urged to promptly vote your shares by proxy. You may vote your shares by proxy by following the instructions under the heading "Procedural Matters" in the proxy statement. If you are able to attend the meeting and wish to vote in person, you may withdraw your proxy at that time.

Sincerely,

Robert A. Kotick
President and Chief Executive Officer

**** Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on Thursday, June 3, 2010 ****

The proxy statement and our 2009 annual report to stockholders are each available at: *http://www.cstproxy.com/activision/2010*

PROXY STATEMENT

**ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 3, 2010**

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PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 3, 2010

GENERAL

This proxy statement is furnished in connection with the solicitation by the Board of Directors ("Board") of Activision Blizzard, Inc., a Delaware corporation, of proxies from holders of our issued and outstanding shares of common stock, par value $0.000001 per share ("Common Stock"). The proxies being solicited will be used at the annual meeting of our stockholders to be held on Thursday, June 3, 2010, at the offices of Equity Office at 3200 Ocean Park Boulevard, Santa Monica, California, 90405, at 9:00 a.m., Pacific Daylight Time, and at any adjournment or postponement of the meeting (the "Annual Meeting"). We will be mailing a notice regarding the Internet availability of these proxy materials (containing instructions on how to access the proxy materials and vote shares through the Internet) to stockholders on or prior to April 23, 2010. All references to the "Company," "we," "us," "our," and "Activision Blizzard" in this proxy statement mean Activision Blizzard, Inc.

PROCEDURAL MATTERS

Record Date and Quorum

Stockholders of record at the close of business on April 6, 2010 are entitled to notice of, and to vote at, the Annual Meeting. There were 1,243,483,898 shares of our Common Stock outstanding and entitled to vote on the record date. Each such share of our Common Stock is entitled to one vote on each matter presented for action at the Annual Meeting. A majority of the outstanding shares of our Common Stock entitled to vote at the meeting must be present in person or by proxy at the Annual Meeting in order for a quorum to be present. Proxies representing abstentions will be included for purposes of determining whether a quorum is present at the Annual Meeting, but proxies representing "broker non-votes" will not be included. A "broker non-vote" occurs when a broker, bank or other nominee who holds shares for a beneficial owner to be represented at a meeting does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

Required Votes

In the election of directors (proposal 1), you may vote "for" or "against," or "abstain" from voting with respect to one or more nominees. Similarly, you may vote "for" or "against," or "abstain" from voting, with respect to the amended and restated Activision Blizzard, Inc. 2008 Incentive Plan (proposal 2).

Election of any nominee as a director (proposal 1) and approval of proposal 2 each requires the affirmative vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote at the Annual Meeting. Accordingly, shares not present and broker non-votes will not have any effect on the voting outcome with respect to the election of directors or proposal 2. Shares present but not voted for one or both of the proposals (either because of an express abstention or because the vote is otherwise not cast) will have the same effect as a vote "against" a director nominee or proposal 2, as the case may be.

Because the election of directors (proposal 1) and the approval of proposal 2 are each a "non-routine" proposal, if you hold your shares in street name and do not give your broker, bank or other nominee instructions as to how to vote your shares with respect to the proposal, your broker, bank or other nominee will not have authority to vote your shares, resulting in a broker non-vote with respect to that proposal. Broker non-votes will not count as voted on the proposal, or as present or represented at the meeting, and so will have no effect on the vote.

Stockholders have no dissenters' rights or rights of appraisal under Delaware law or our Certificate of Incorporation or Bylaws in connection with the election of directors (proposal 1) or approval of proposal 2.

Proxies

Whether or not you are able to attend the Annual Meeting, you are urged to vote your shares by proxy. Stockholders of record may vote online at *www.continentalstock.com*, by calling (866) 894-0537 or, if they receive a copy of this proxy statement by mail, by completing and mailing the proxy card enclosed with that proxy statement. If you are a stockholder of record and you choose to vote by mail, please complete, sign and date the proxy card as soon as possible. If you hold shares in street name through a broker, bank or other nominee, your broker, bank or other nominee will send you separate instructions describing the procedure for voting your shares.

The shares of Common Stock represented by all valid proxies we receive prior to the Annual Meeting that are not properly revoked prior to being voted at the Annual Meeting will be voted at the Annual Meeting as directed. If no directions are specified, those proxies will be voted FOR each of the director nominees named in this proxy statement (proposal 1) and FOR approval of the amended and restated Activision Blizzard, Inc. 2008 Incentive Plan (proposal 2). Any stockholder may revoke or change that stockholder's proxy at any time before the proxy is voted at the Annual Meeting by (1) sending a written notice of revocation of the proxy to our Corporate Secretary at Activision Blizzard, Inc., 3100 Ocean Park Blvd., Santa Monica, California 90405, (2) properly delivering a subsequently dated proxy or (3) voting in person at the Annual Meeting.

Attending and Voting at the Annual Meeting

You should be prepared to present a valid form of photo identification, such as a driver's license, state-issued ID card or passport, to gain admittance to the Annual Meeting. In addition, if you are a stockholder of record, your ownership as of the record date will be verified by reference to our records prior to admittance into the Annual Meeting. If you hold shares in street name through a broker, bank or other nominee, you must provide proof of beneficial ownership as of the record date, such as a brokerage account statement or similar evidence of ownership. If you do not provide valid photo identification and otherwise comply with the procedures outlined above, you may not be admitted to the Annual Meeting. Directions to the Annual Meeting can be obtained by contacting our Investor Relations department by calling (310) 255-2000 or by emailing *ir@activision.com.*

Stockholders of record who wish to vote in person at the Annual Meeting must request a ballot at the meeting. Street-name holders who wish to vote in person at the Annual Meeting will need to obtain a proxy from the broker, bank or other nominee that holds their shares of record.

Costs of Proxy Solicitation

We will bear the entire cost of this proxy solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy card, the notice regarding the Internet availability of proxy materials and any additional solicitation materials we send to stockholders. We may reimburse brokerage firms and other persons representing beneficial owners of our Common Stock for their expenses in forwarding the proxy materials to those beneficial owners. In addition, proxies may be solicited, personally or by telephone, by our directors, officers and regular employees without additional compensation.

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PROPOSAL 1
ELECTION OF DIRECTORS

General

On July 9, 2008, a business combination (the "Combination") by and among Activision, Inc., Sego Merger Corporation, a wholly owned subsidiary of Activision, Inc., Vivendi S.A. ("Vivendi"), VGAC LLC, a wholly owned subsidiary of Vivendi ("VGAC"), and Vivendi Games, Inc. ("Vivendi Games"), a wholly owned subsidiary of VGAC, was consummated. In connection with the consummation of the Combination, Activision, Inc. was renamed Activision Blizzard, Inc., we changed our fiscal year end from March 31st to December 31st and our Certificate of Incorporation and Bylaws were amended.

Pursuant to our Bylaws, our Board is comprised of 11 members, consisting of six Vivendi directors (the "Vivendi Directors"), two executive directors (the "Executive Directors") and three independent directors (the "Independent Directors"). Three subcommittees of our Nominating and Corporate Governance Committee select nominees for the three categories of directors, as follows:

- the Vivendi Nominating Committee selects the Vivendi Director nominees Messrs. Capron, Crépin, Lévy, Morris, Roussel and Turrini are the six Vivendi Director nominees for election at the Annual Meeting;

- the Executive Nominating Committee selects the Executive Director nominees Messrs. Kelly and Kotick are the two Executive Director nominees for election at the Annual Meeting; and

- the Independent Nominating Committee selects the Independent Director nominees Messrs. Corti, Morgado and Sarnoff are the three Independent Director nominees for election at the Annual Meeting.

The process undertaken by our Nominating and Corporate Governance Committee (through the three subcommittees identified above) in selecting qualified director candidates is described below under "Corporate Governance Matters Director Qualifications."

Stockholders will elect 11 directors at the Annual Meeting. Those elected will serve until their respective successors are duly elected or appointed and qualified or until the earlier of their death, resignation or removal. Except where otherwise instructed, proxies solicited by this proxy statement will be voted for the election of each nominee. However, if any nominee becomes unable to stand for election as a director at the Annual Meeting, the proxy may be voted for a substitute designated in accordance with our Bylaws.

Pursuant to our Bylaws and an investor agreement among Vivendi, VGAC, Vivendi Games and us, VGAC, which holds a majority of the outstanding shares of our Common Stock, has agreed to vote its shares in a manner that ensures that all of the nominees are elected. For more information about the composition of our Board, the nominating subcommittees, our Bylaws and the investor agreement, see "Corporate Governance" and "Certain Relationships and Related Transactions" below.

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Nominees

The following table sets forth the names of the nominees and certain information about them (including their terms of service). Each of the nominees currently serves as a director of Activision Blizzard. Each has consented to be named in this proxy statement and has agreed to continue to serve as a director if elected at the Annual Meeting.

Name of Nominee	Age	Principal Occupation	Director Since
Philippe G. H. Capron	51	Chief Financial Officer of Vivendi	2008
Robert J. Corti	60	Chairman of the Board of Avon Products Foundation	2003
Frédéric R. Crépin	40	Senior Vice President, Head of Legal Department of Vivendi	2008
Brian G. Kelly	47	Co-Chairman of the Board of Activision Blizzard	1995
Robert A. Kotick	47	President and Chief Executive Officer of Activision Blizzard	1991
Jean-Bernard Lévy	55	Chairman of the Management Board and Chief Executive Officer of Vivendi	2008
Robert J. Morgado	67	Chairman of Maroley Media Group	1997
Douglas P. Morris	71	Chairman and Chief Executive Officer of Universal Music Group	2008
Stéphane Roussel	48	Senior Executive Vice President, Human Resources of Vivendi	2009
Richard Sarnoff	51	Co-Chairman of Bertelsmann	2005
Régis Turrini	51	Senior Executive Vice President, Strategy and Development of Vivendi	2009

For information regarding each nominee's current committee membership, please see "Corporate Governance Matters Board of Directors and Committees Board Committees" below.

All of our directors bring to our Board a wealth of leadership and management experience, including board experience and experience derived from their service as executives of large public companies. Certain individual qualifications and skills of each of our directors that we believe contribute to the Board's effectiveness and success are described in his biography below.

Mr. Capron became a director of Activision Blizzard in July 2008 in connection with the Combination. He has served as Chief Financial Officer and as a Member of the Management Board of Vivendi, a global communications and entertainment company, since April 2007. He joined Vivendi as Executive Vice President in January 2007. From 2006 until 2007, Mr. Capron served as Executive Vice President Finance and as a member of the Management Board of the Arcelor Group, a steel manufacturer (now part of Arcelor Mittal), and from 2002 until 2006 Mr. Capron was Executive Vice President of Arcelor. Mr. Capron is a member of the Supervisory Boards of each of Canal+ Group, a film and television studio and distributor controlled by Vivendi, Canal+ France, a French premium pay television channel controlled by Vivendi, Maroc Telecom, a Moroccan telecommunications provider and subsidiary of Vivendi, and Group Virbac, a French veterinarian pharmaceutical company, and is a director of each of SFR, a French mobile phone company controlled by Vivendi, NBC Universal, Inc., a media and entertainment company in which Vivendi has a minority investment, GVT Holdings, S.A., a Brazilian telecommunications and Internet solutions provider controlled by Vivendi, and Tinubu Square, a French provider of credit risk management solutions. Mr. Capron is a graduate of the *École des Hautes Études Commerciales*, the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

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Mr. Capron's qualifications for election to our Board include his ability to provide the perspective of an active Chief Financial Officer, drawing on his extensive experience in financial leadership roles at large international corporations with worldwide operations. He also brings to Activision Blizzard strong leadership skills and knowledge of visual media, communications and entertainment markets, gained in part through his years of service on a variety of Supervisory Boards in these industries, as described above.

Mr. Corti has been a director of Activision Blizzard since December 2003 and serves as Chairperson of the Audit Committee. Mr. Corti has more than 25 years of experience at Avon Products, Inc., a global manufacturer and marketer of beauty and related products. Mr. Corti joined Avon Products, Inc.'s tax department as a tax associate in 1976 and held positions of increasing responsibility in Avon Products, Inc.'s finance department throughout his tenure there, serving as the Executive Vice President and Chief Financial Officer of Avon Products, Inc. from 1998 until he retired from his positions as Chief Financial Officer in November 2005 and Executive Vice President in March 2006. Mr. Corti has served on the Board of Directors of Bacardi Limited, a wine and spirits group, since June 2006, and on the Board of Directors of ING Direct, a U.S. subsidiary of ING Groep, a Dutch insurance conglomerate, since January 2008. Mr. Corti also serves as Chairman of the Board of Directors of the Avon Products Foundation. Mr. Corti holds a B.A. degree in Accounting from Queens College and an M.B.A. degree in Taxation from St. John's University. Mr. Corti is also a certified public accountant.

Mr. Corti's qualifications for election to our Board include his financial expertise, and his wealth of accounting and tax experience, gleaned in part from his long tenure in Avon's finance department. Having served Avon for more than 25 years, working his way up to more and more senior roles within that organization, Mr. Corti offers the unique perspective of having helped to guide a large public company with international operations through the changing economic and competitive landscape of the last two and a half decades. Mr. Corti serves on our Audit Committee, and he qualifies as an audit committee financial expert (as defined in the applicable rules of the SEC) and is financially sophisticated within the meaning of the NASDAQ Marketplace Rules.

Mr. Crépin became a director of Activision Blizzard in July 2008 in connection with the Combination and serves as Chairperson of the Nominating and Corporate Governance Committee. He has served as Senior Vice President, Head of Legal Department of Vivendi since August 2005. Mr. Crépin joined Vivendi's office of the General Counsel and Legal Department in July 2000. Prior to joining Vivendi, Mr. Crépin served as an associate at several law firms in each of Paris and New York and is a member of both the Paris and the New York bars. He is a graduate of the *Institut d'Études Politiques de Paris*, holds an L.L.M. degree from New York University School of Law, a Masters Degree in European business law from the *Université Paris II Panthéon Assas* and a Masters Degree in employment and labor law from the *Université Paris X Nanterre*.

Mr. Crépin's qualifications for election to our Board include his ability to offer the perspective of a practicing attorney and his experience as head of Vivendi's Legal Department, with responsibility for overseeing a large team of lawyers responsible for advising Vivendi on the wide range of legal issues that arise in the course of operating a large, international public company. Drawing on this experience, Mr. Crépin brings to our Board a wealth of practical, problem-solving skills and extensive knowledge of the legal and regulatory frameworks in which large, international public companies operate.

Mr. Kelly has held various positions of responsibility with Activision Blizzard since 1991, including serving as a director of Activision Blizzard since July 1995 and the Co-Chairman of our Board since October 1998. Mr. Kelly holds a B.A. degree in accounting from Rutgers University and a J.D. degree from Fordham University School of Law.

Mr. Kelly's qualifications for election to our Board include his dedication to Activision Blizzard over almost two decades of service in our executive ranks, and as a director and Co-Chairman of our

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Board, and the depth of institutional knowledge and understanding he possesses by virtue of that service. During that time, he has demonstrated his superior leadership skills, his devotion to Activision Blizzard and his commitment to helping to ensure our ongoing success.

Mr. Kotick has been a director of Activision Blizzard and our Principal Executive Officer since February 1991 and was our Chairman and Chief Executive Officer from February 1991 until July 2008, when he became our President and Chief Executive Officer in connection with the Combination. Mr. Kotick is also a member of the Board of Trustees for The Center for Early Education, is Chairman of the Committee of Trustees at the Los Angeles County Museum of Art and is a member of the Board of Directors of the Tony Hawk Foundation. In addition, he served on the Board of Directors of Yahoo!, an Internet content and service provider, from 2003 until 2008.

Mr. Kotick's qualifications for election to our Board include his devotion to Activision Blizzard, which he has demonstrated during his almost two decades of service to us, including as our Principle Executive Officer, President, Chief Executive Officer and Chairman of the Board. As a result, he possesses a depth of institutional knowledge and understanding of our organization, as well as practical experience in a Chief Executive Officer role. Mr. Kotick also brings to Activision Blizzard his perspective as a Board member at a variety of other organizations, and his experience in helping those organizations achieve their diverse goals and overcome a widely varying range of challenges through changing economic and social times.

Mr. Lévy became a director of Activision Blizzard in July 2008 in connection with the Combination and serves as Chairman of our Board and Chairperson of the Compensation Committee. He has served as the Chairman of the Management Board of Vivendi and Chief Executive Officer of Vivendi since April 2005 and was Chief Operating Officer of Vivendi from August 2002 until April 2005. Mr. Lévy currently serves as the Vice-Chairman of the Supervisory Board of Maroc Telecom, a Moroccan telecommunications provider and subsidiary of Vivendi, and as the Chairman of the Supervisory Board of each of Canal+ France, a French premium pay television channel controlled by Vivendi, and Viroxis, a French pharmaceutical and biotechnology company. Mr. Lévy is also a member of the Supervisory Board of Canal+ Group, a film and television studio and distributor controlled by Vivendi, and is a director of each of *Société Générale*, a French-based banking group, SFR, a French mobile phone company controlled by Vivendi, NBC Universal, Inc., a media and entertainment company in which Vivendi has a minority investment, VINCI, a French integrated concessions and construction group, GVT Holdings, S.A., a Brazilian telecommunications and Internet solutions provider controlled by Vivendi, French Europlace, an entity which promotes Paris as a financial centre, *Institut Telecom*, a public administrative institution whose mission lies in higher education, research and continuing training in the field of information and communication science and technology, and *l'Institut Pasteur*, a private foundation dedicated to the prevention and treatment of diseases. Mr. Lévy previously served as Chairman and Chief Executive Officer of VU Net and VTI and as a director of each of UGC, Cegetel, Oddo Pinatton Group and HCA. Mr. Lévy has degrees from the *École Polytechnique* and the *École Nationale Supérieure des Télécommunications*.

Mr. Levy's qualifications for election to our Board include his ability to provide the perspective of an active Chief Executive Officer, drawing on his extensive experience in that role and other senior executive roles at large international corporations with worldwide operations. He also brings to Activision Blizzard strong leadership skills and knowledge of visual media, communications and entertainment markets, gained in part through his years of service as a director and on Supervisory Boards at a variety of global companies in these industries, as described above.

Mr. Morgado has been a director of Activision Blizzard since February 1997. Mr. Morgado is Chairman of Maroley Media Group, a media entertainment investment company he established in 1995. He previously served as Chairman and Chief Executive Officer of the Warner Music Group, Inc., a music content company comprised of recorded music and music publishing businesses, from 1985 to

1995. Mr. Morgado serves on the boards of directors of the Maui Arts & Cultural Center and New Milford Hospital in Connecticut. He is also a member of the Board of Managers of Nest Top, LLC, the controlling shareholder of Nest Family and Nest Learning Systems, a children's entertainment company. Mr. Morgado holds a B.A. degree from Chaminade University of Honolulu and an M.P.A. degree from The State University of New York.

Mr. Morgado's qualifications for election to our Board include his extensive experience as a Chief Executive Officer and director at a variety of media and entertainment companies, and his perspective as the creator and Chairman of a media entertainment investment company, the Maroley Media Group, which has been in existence for 15 years. Mr. Morgado serves on our Audit Committee, and qualifies as financially literate as required under the NASDAQ Marketplace Rules.

Mr. Morris became a director of Activision Blizzard in July 2008 in connection with the Combination. He has served on Vivendi's Management Board since April 2005. Mr. Morris is currently the Chairman and Chief Executive Officer of Universal Music Group, a music content company comprised of recorded music and music publishing businesses and a subsidiary of Vivendi, a position he has held since November 1995. Mr. Morris also currently serves as a director for various subsidiaries of Universal Music Group and for CBS Corporation, a mass media corporation, as well as serving on the Board of Directors of the Robin Hood Foundation, a charitable organization which attempts to alleviate problems caused by poverty in New York City, and the Board of Directors of the Rock and Roll Hall of Fame. Mr. Morris holds a B.A. degree from Columbia University.

Mr. Morris' qualifications for election to our Board include his perspective as Chief Executive Officer of a large, public entertainment company operating worldwide, a position he has held for 15 years, and as a board member at a variety of other media and entertainment companies. Mr. Morris also brings to Activision Blizzard his perspective as a board member and trustee of organizations outside of the media and entertainment markets namely the Robin Hood Foundation, the Rock and Roll Hall of Fame, and the Cold Spring Harbor Laboratory where he has gained breadth of experience through dealing with the wide range of issues and challenges that those organizations face.

Mr. Roussel has been a director of Activision Blizzard since June 2009. He has served as Senior Executive Vice President, Human Resources of Vivendi since May 2009. From July 2004 until March 2009, when he became an Executive Vice President of Vivendi, he served as Executive Vice President, Human Resources of SFR, a French telecommunications company controlled by Vivendi. Prior to joining SFR, Mr. Roussel held various positions in the human resources departments of Xerox, document management company, and the Carrefour Group, a global distribution group. He has a degree from the *École des Psychologues Practiciens*.

Mr. Roussel's qualifications for election to our Board include his ability to provide the perspective of a senior executive human resources role for a variety of large, international public companies. Mr. Roussel brings to Activision Blizzard an intimate knowledge of the varying needs of companies, particularly with respect to employee relations and compensation matters, and a demonstrated ability to help lead companies and their workforces through ever-changing conditions in the macroeconomic environment and within the dynamic markets in which our business operates.

Mr. Sarnoff has been a director of Activision Blizzard since August 2005, and is employed by Bertelsmann AG, a diversified media and services company, where he serves as Co-Chairman of Bertelsmann, Inc. and President of Bertelsmann Digital Media Investments. Previously, Mr. Sarnoff served as Executive Vice President and Chief Financial Officer of Random House, Inc., a general trade book publisher and subsidiary of Bertelsmann AG. He currently serves on the Board of Directors of Amdocs, Inc., a provider of software and services to the telecommunications industry. Mr. Sarnoff also served as a member of the Supervisory Board of Bertelsmann AG from 2002 to 2008, as a member of the Board of Directors of the Princeton Review, an educational preparation company, from 2000 to 2009 and as a member of the Board of Directors of Audible, Inc., a provider of spoken audio entertainment, information, and educational programming, from 2001 to 2008. He was also formerly Chairman of the Board of the American Association of Publishers. Mr. Sarnoff holds a B.A. degree from Princeton University and an M.B.A. degree from Harvard Business School.

Mr. Sarnoff's qualifications for election to our Board include his experience serving as Chief Financial Officer and a variety of other senior leadership roles both in and outside of the media, entertainment and digital technology industries. He also brings to Activision Blizzard strong leadership skills and business acumen, gained in part through his years of service on the boards of large, international public companies competing in diverse markets. Mr. Sarnoff serves on our Audit Committee, and qualifies as financially literate as required under the NASDAQ Marketplace Rules.

Mr. Turrini has been a director of Activision Blizzard since June 2009. He has served as Senior Executive Vice President, Strategy and Development of Vivendi since January 2008 and was Executive Vice President, Mergers and Acquisitions of Vivendi from January 2003 until January 2008. Mr. Turrini has also served as the Chairman and Chief Executive Officer of Vivendi Telecom International, an international telecommunications provider and subsidiary of Vivendi, since January 2008, and as the Chairman, of Wengo SAS, a French voice over internet protocol (*i.e.*, VOIP) service provider and subsidiary of Vivendi, since March 2009. In addition, Mr. Turrini currently serves as a member of the Supervisory Board of each of Maroc Telecom, a Moroccan telecommunications provider and subsidiary of Vivendi, and Canal+ France, a French premium pay television channel controlled by Vivendi, and is a director of GVT Holdings, S.A., a Brazilian telecommunications and Internet solutions provider controlled by Vivendi. Prior to joining Vivendi, Mr. Turrini served as a judge in the French administrative judicial system, was an associate at two law firms in Paris and was a managing partner of the investment bank Arjil & Company. He is a member of the Paris bar. He has degrees from the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.

Mr. Turrini's qualifications for election to our Board include his ability to contribute his perspective on how we can grow and expand our business, as well as his perspective on our strategy within the broader markets in which we compete, developed in part through his experience as Senior Executive Vice President of Strategy and Development and Executive Vice President of Mergers and Acquisitions of Vivendi, as noted above. His experience as Chief Executive Officer and service as a board member of companies in the communications and entertainment industries demonstrate his strong leadership skills and knowledge of the entertainment industry.

Required Vote and Board Recommendation

Each director is elected by the affirmative vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote at the Annual Meeting. At the Annual Meeting, VGAC is expected to vote its shares FOR the election of each nominee for director in accordance with the investor agreement and our Bylaws.

The Board recommends that you vote FOR the election of each nominee for director.

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PROPOSAL 2
APPROVAL OF THE 2008 INCENTIVE PLAN, AS AMENDED AND RESTATED

General

The Activision Blizzard Inc. 2008 Incentive Plan was adopted by our Board on July 28, 2008, approved by our stockholders and amended and restated by our Board on September 24, 2008, amended and restated by our Board with stockholder approval on June 3, 2009 and amended and restated by the Compensation Committee of our Board with stockholder approval on December 17, 2009 (as so amended and restated, the "2008 Plan"). The 2008 Plan authorizes the Compensation Committee of our Board to grant equity- and cash-based compensation for the purpose of providing incentives and rewards for performance to the directors, officers and other employees of, and consultants to, Activision Blizzard and our subsidiaries. On February 10, 2010, our Board adopted, subject to stockholder approval, amendments to the 2008 Plan to increase the maximum number of shares of our Common Stock authorized for issuance pursuant to awards granted under the 2008 Plan and the maximum number of shares that may be issued pursuant to certain types of awards under the 2008 Plan and, on April 14, 2010, our Compensation Committee adopted, subject to stockholder approval, amendments to the 2008 Plan to revise certain provisions relating to the granting of incentive compensation intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended (the "Internal Revenue Code") and to amend certain limitations with respect to the granting of awards under the 2008 Plan, all as described below.

Proposed Amendments

Increase in the maximum number of shares of our Common Stock authorized for issuance pursuant to awards granted and the maximum number of shares that may be issued pursuant to certain types of awards. The changes that would be implemented by the proposed amendments of the 2008 Plan, if it is adopted by our stockholders, include the following:

- an increase in the maximum number of shares of our Common Stock issuable under the 2008 Plan by 56,000,000 shares (those additional 56,000,000 shares, the "Proposed Additional Shares"); and

- an increase in the limit on the number of shares of our Common Stock that may be issued under the 2008 Plan pursuant to the following types of awards as follows:

  - incentive stock options by 56,000,000 shares;

  - awards other than options or share appreciation rights ("SARs") by 28,000,000 shares; and

  - custom awards granted under Section 10 of the plan (*i.e.*, awards not explicitly contemplated by the 2008 Plan that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of our Common Stock or factors that may influence the value of our Common Stock or that are valued based on the performance of Activision Blizzard or any of our subsidiaries or business units or other factors designated by the Compensation Committee) by 11,200,000 shares.

Revision of certain provisions relating to the granting of incentive compensation intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. In addition, if the proposed amendments to the 2008 Plan are approved by our stockholders, the following changes to the 2008 Plan will be implemented:

- the revision of the definition of "covered employee" as used in the 2008 Plan to include any "executive officer" of the Company within the meaning of Rule 3b-7 under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), rather than any plan participant who

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- is, or is determined by the Compensation Committee to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code;

- the revision of the definition of "management objectives" (as described below) to remove any language that could be interpreted to suggest that the Compensation Committee is unable to make awards to covered employees that are not intended to be performance-based compensation;

- the revision of the definition of management objectives and of the definition of "performance period" to remove any language that could be interpreted to suggest that we are restricted from making awards of performance shares or performance share units that become payable upon the achievement of performance criteria other than management objectives; and

- the amendment of the provisions regarding custom awards to clarify that those awards may be determined by reference to the achievement of management objectives.

Amendment of certain limitations on our ability to make awards to plan participants. Further, if the proposed amendments to the 2008 Plan are approved by our stockholders, the following changes to the 2008 Plan will be implemented:

- the increase by $4 million of the maximum aggregate value of performance units which may be granted to any one participant in a single fiscal year, from $2 million to $6 million; and

- the increase by $4 million of the maximum aggregate value of custom awards not involving the issuance or transfer of shares of our Common Stock which may be granted to any one participant in a single fiscal year, from $2 million to $6 million.

Reasons for Stockholder Approval

Stockholder approval of the amendments to the 2008 Plan is necessary in order for us to meet the stockholder approval requirements of the NASDAQ Stock Market ("NASDAQ"). If our stockholders do not approve the amendments to the 2008 Plan, the 2008 Plan will not be amended and any future awards under the 2008 Plan will be made under the terms of the 2008 Plan that are currently in effect, for so long as available shares remain.

Increase in the maximum number of shares of our Common Stock authorized for issuance pursuant to awards granted and the maximum number of shares that may be issued pursuant to certain types of awards. Equity-based compensation has been a major component of our compensation programs for many years. The Board believes that our ability to grant equity-based compensation has been a significant factor in our achievement of its growth objectives and our ability to increase stockholder value and is critically important for our continued success. The principal factors shaping the Board's view in this regard are as follows:

- *Recruiting and Retention.* In the industry in which we compete, our use of equity-based compensation is vital in order for us to attract and retain executive, creative and technical talent and other key employees. In particular, the market for creative and technical talent is extremely competitive in the interactive entertainment software industry.

- *Motivation.* Our use of equity-based compensation is fundamental to our ability to motivate our employees to achieve our growth objectives.

- *Alignment with Stockholder Interests.* Our ability to use equity-based compensation gives it the most effective means to align the interests of our employees with those of our stockholders because equity-based compensation directly links the employee's compensation to an increase in the value of our Common Stock.

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Without a new share authorization under the 2008 Plan, we believe that, in the near future, we will cease being able to make grants under the plan and, as a result, no longer have the ability to utilize equity-based compensation as a meaningful component of our compensation programs, putting us at a significant competitive disadvantage and compromising our ability to enhance stockholder value.

As of April 1, 2010, 19,985,756 shares of our Common Stock remained available for issuance under the 2008 Plan. If the proposed addition of 56,000,000 shares is approved by our stockholders, we anticipate having sufficient shares to meet our needs for recruiting, retention and motivation through the next three to four fiscal years, although those expectations could change in response to extraordinary circumstances (such as acquisitions).

Revision of certain provisions relating to the granting of incentive compensation intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. Amending the 2008 Plan will clarify the provisions in the existing plan relating to incentive compensation that is intended to qualify for the exception from Section 162(m) of the Internal Revenue Code for "performance-based compensation." (Whether or not our stockholders approve the amendments to the 2008 Plan, we may make awards outside of the 2008 Plan to our employees, including our "covered employees" within the meaning of Section 162(m) of the Internal Revenue Code (generally, the chief executive officer and the three other highest paid officers other than the chief financial officer), and may make awards under the 2008 Plan that we are unable to deduct because of the limitations imposed by Section 162(m) of the Internal Revenue Code, which limits the ability of publicly held corporations like the Company to deduct compensation paid to "covered employees" within the meaning of Section 162(m).)

Amendment of certain limitations on our ability to make awards to plan participants. Increasing the limitations on the value of performance units and custom awards not involving the issuance or transfer of shares of our Common Stock will provide us with increased flexibility to award compensation to our employees, which we believe will increase our ability to motivate our employees to achieve our growth objectives, thus increasing stockholder value.

Summary of the 2008 Plan, as Proposed to be Amended and Restated

The following summary of the principal terms and provisions of the 2008 Plan as proposed to be amended and restated is qualified in its entirety by the terms of the 2008 Plan, which is included as Appendix A attached to this proxy statement and incorporated herein by reference.

Shares Available Under the 2008 Plan

On April 1, 2010, we had 19,985,756 shares of our Common Stock reserved for future issuance under the 2008 Plan (which, for the sake of clarity, does not include the Proposed Additional Shares), subject to adjustment as provided in the 2008 Plan in the event of stock splits, stock dividends, the issuance of rights and certain other events. The NASDAQ Official Closing Price of our Common Stock on April 1, 2010 was $11.92 per share. As described above, on February 10, 2010, our Board adopted, subject to stockholder approval, the amendment described herein increasing the maximum number of shares of our Common Stock reserved for issuance under the 2008 Plan by 56,000,000 shares.

The number of shares reserved for issuance under the 2008 Plan on April 1, 2010 may be further increased from time to time by:

- the number of shares relating to awards outstanding under the Prior Plans at April 1, 2010 that:
  - expire, or are forfeited, terminated or cancelled, without the issuance of shares;
  - are settled in cash in lieu of shares; or

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are exchanged, prior to the issuance of shares of our Common Stock, for awards not involving our Common Stock; and

if the exercise price of any option outstanding under any Prior Plan at September 24, 2008 is, or the tax withholding requirements with respect to any award outstanding under any Prior Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to us of shares already owned, the number of shares equal to the withheld or transferred shares.

"Prior Plans" means the following equity incentive plans: (1) the Activision, Inc. 1998 Incentive Plan, as amended; (2) the Activision, Inc. 1999 Incentive Plan, as amended (the "1999 Plan"); (3) the Activision, Inc. 2001 Incentive Plan, as amended; (4) the Activision, Inc. 2002 Incentive Plan, as amended (the "2002 Plan"); (5) the Activision, Inc. 2002 Executive Incentive Plan, as amended; (6) the Activision, Inc. 2002 Studio Employee Retention Incentive Plan, as amended (the "2002 Studio Plan"); (7) the Activision, Inc. 2003 Incentive Plan, as amended (the "2003 Plan"); and (8) the Activision, Inc. 2007 Incentive Plan (the "2007 Plan"). At the time the 2008 Plan was approved by our stockholders on September 24, 2008, there were 87,899,042 shares subject to awards outstanding under the Prior Plans that potentially could become available for awards under the 2008 Plan. On September 24, 2008, the effective date of the 2008 Plan, we ceased to grant awards under the Prior Plans, although those plans remain in effect and continue to govern outstanding awards.

Under the 2008 Plan:

shares relating to awards that expire, or are forfeited, terminated or cancelled, without the issuance of shares, awards that are settled in cash in lieu of shares and awards that are exchanged, with the Compensation Committee's permission, prior to the issuance of shares of our Common Stock, for awards not involving our Common Stock, will again be available for issuance or transfer under the 2008 Plan;

if the exercise price of any option is, or the tax withholding requirements with respect to any award granted under the 2008 Plan are, satisfied by withholding shares otherwise then deliverable in respect of the award or the actual or constructive transfer to us of shares already owned, a number of shares equal to the withheld or transferred shares will again be available for issuance or transfer under the 2008 Plan; and

if a SAR is exercised and settled in shares, a number of shares equal to the difference between the total number of shares with respect to which the award is exercised and the number of shares actually issued or transferred will again be available for issuance or transfer under the 2008 Plan, with the result being that only the number of shares actually issued or transferred upon exercise of the SAR are counted against the maximum number of shares of our Common Stock available for issuance or transfer under the 2008 Plan.

Shares utilized under the 2008 Plan may be newly issued shares, treasury shares or a combination of both.

The 2008 Plan contains the following aggregate and individual annual grant limitations:

Limits on ISOs. The number of shares that we may issue or transfer upon the exercise of incentive stock options ("ISOs") may not exceed 84,878,935 (which equals the number of shares available for grant under the 2007 Plan at the time the 2008 Plan was approved by stockholders, plus 70,000,000 shares consisting of the 14,000,000 shares that were reserved for issuance under the 2008 Plan in December 2009 plus the Proposed Additional Shares) in the aggregate;

Limits on Awards Other than Options and SARs. The number of shares that we may issue or transfer as or pursuant to awards other than options or SARs may not exceed 50,000,000 in the aggregate, including no more than 20,000,000 in the aggregate as or pursuant to custom awards

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(*i.e.*, awards not explicitly contemplated by the 2008 Plan that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of our Common Stock or factors that may influence the value of our Common Stock or that are valued based on the performance of Activision Blizzard or any of our subsidiaries or business units or other factors designated by the Compensation Committee (which may include the achievement of management objectives));

Limits on Options and SARs. The number of shares issuable or transferable in respect of options and SARs granted to any one participant in a single fiscal year may not exceed 4,000,000 in the aggregate;

Limits on Restricted Shares and Restricted Share Units. The number of (1) restricted shares granted to any one participant in a single fiscal year and (2) shares issuable or transferable in respect of restricted share units granted to that participant in that year, may not exceed 2,000,000 in the aggregate;

Limits on Performance Shares. The number of performance shares granted to any one participant in a single fiscal year may not exceed 3,000,000 in the aggregate;

Limits on Performance Units. The value of performance units granted to any one participant in a single fiscal year may not exceed $6 million in the aggregate (with the value of any such grant to be determined as of the date of the grant);

Limits on Incentive Bonuses. The amount of any senior executive plan bonuses paid under the 2008 Plan to any one participant for a single fiscal year may not exceed $6 million in the aggregate; and

Limits on Custom Awards. The number of shares issuable or transferable in respect of custom awards granted to any one participant in a single fiscal year may not exceed 3,000,000 in the aggregate and the value of any custom award that does not involve the issuance or transfer of shares may not exceed $6 million in the aggregate (with the value of any such award to be determined as of the date of the award).

Eligibility

Directors, officers and other employees of, and consultants to, Activision Blizzard and our subsidiaries are eligible to participate in the 2008 Plan. As of April 1, 2010, approximately 7,600 individuals were considered eligible to be selected by the Compensation Committee to receive awards under the 2008 Plan, including our 8 executive officers and our 10 directors who are not executive officers.

Types of Awards Authorized

The 2008 Plan provides for the granting of stock options, SARs (both freestanding SARs and SARs granted in tandem with stock options), restricted shares, restricted share units, performance shares, performance units, dividend equivalents and custom awards. Awards granted under the 2008 Plan will be upon whatever terms are approved by the Compensation Committee and set forth in an award agreement or other evidence of an award, provided that (a) the exercise price per share of stock options, and the price per share of freestanding SARs, granted under the 2008 Plan will be not less than the "market value per share" (defined as (i) the closing price per share of Common Stock as reported on the principal securities exchange, association or quotation system on which the Common Stock is then listed or quoted, or (ii) if clause (i) does not apply, the fair market value of a share of Common Stock as determined by the Compensation Committee), and (b) no stock option or freestanding SAR granted under the 2008 Plan may be exercised more than 10 years from the date of grant. An award will contain those terms and provisions, consistent with the 2008 Plan, which

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Compensation Committee approves, including provisions for the acceleration of vesting or the lapse, expiration or termination of restrictions or other conditions upon the occurrence of certain events, including change of control events.

The 2008 Plan also provides that the Compensation Committee may from time to time authorize payment of a senior executive plan bonus to a participant who is a "covered employee" (defined for purposes of the 2008 Plan as an "executive officer" of the Company within the meaning of Rule 3b-7 under the Exchange Act), which incentive compensation will become payable upon the achievement of specified management objectives, as described below. The payment of a senior executive plan bonus under the 2008 Plan may be made in cash, in shares of our Common Stock or a combination of both, as determined by the Compensation Committee.

Management Objectives

The 2008 Plan contemplates that the Compensation Committee will establish "management objectives" for purposes of any grants of incentive bonuses. Under the 2008 Plan, the Compensation Committee may also establish management objectives in connection with grants of stock options, SARs, restricted shares, restricted share units, performance shares, performance units and custom awards. For example, the Compensation Committee may specify management objectives that must be achieved as a condition to exercising options or SARs, to result in termination or early termination of the restrictions applicable to restricted shares or restricted share units or to result in the vesting of performance shares or performance units.

Subject to the limits described below, management objectives may be described in terms of either Activision Blizzard-wide objectives or objectives that are related to the performance of the individual participant or a subsidiary, division, department, region or function. The Compensation Committee may provide, in connection with the setting of management objectives, that any evaluation of performance may include or exclude certain items, including, without limitation, asset write downs, litigation or claim judgments or settlements, the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results, any reorganization and restructuring programs, extraordinary nonrecurring items as described in Accounting Standards Codification ("ASC") Subtopic 225-20 or in management's discussion and analysis of financial condition and results of operations appearing in our Annual Report on Form 10-K for the applicable year, acquisitions or divestitures and foreign exchange gains and losses.

Management objectives applicable to any award to a participant who is a covered employee within the meaning of the 2008 Plan that is intended to be deductible under Section 162(m) of the Internal Revenue Code will be limited to measurable and specified levels of performance or relative peer company performance in any one or more of the following objectives, or any combination of any of them, as determined by the Compensation Committee in its sole discretion: adjusted net earnings; appreciation in or maintenance of the price of our Common Stock (or any other publicly traded securities of Activision Blizzard), including, without limitation, comparisons with various stock market indices; attainment of strategic and operational initiatives; budget; cash flow (including, without limitation, free cash flow); cost of capital; cost reduction; earnings and earnings growth (including, without limitation, earnings per share, earning before taxes, earnings before interest and taxes and earnings before interest, taxes, depreciation and amortization); market share; market value added; net income; net sales; operating profit and operating income; pretax income before allocation of corporate overhead and bonus; quality; recruitment and development of associates; maintenance of internal control over financial reporting and corporate governance practices; reductions in costs; return on assets and return on net assets; return on equity; return on invested capital; sales and sales growth; successful acquisition/divestiture; and total stockholder return and improvement of stockholder return.

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If the Compensation Committee determines that a change in our business, operations, corporate structure or capital structure, or the manner in which we conduct our business, or other events or circumstances, render previously established management objectives unsuitable, the Compensation Committee may in its discretion modify those management objectives or the minimum acceptable level of achievement of those objectives, in whole or in part, as the Compensation Committee deems appropriate and equitable, except in the case of a covered employee where such action would result in the loss of the otherwise available exemption under Section 162(m) of the Internal Revenue Code. In such case, the Compensation Committee may not make any such modification of the management objectives or minimum acceptable level of achievement with respect to such covered employee.

Administration and Amendments

The 2008 Plan is administered by the Compensation Committee. The Compensation Committee has sole discretion to interpret any provision of the 2008 Plan or an award thereunder, make any determination necessary or advisable for the administration of the 2008 Plan and awards thereunder, and waive any condition or right of ours under an award or discontinue or terminate an award. Further, any decision or determination made by the Compensation Committee with respect to the 2008 Plan or an award thereunder will be made by the Compensation Committee in its sole and absolute discretion, subject to the terms of the 2008 Plan. The interpretation and construction by the Compensation Committee of any provision of the 2008 Plan or of any award, and any determination by the Compensation Committee pursuant to any provision of the 2008 Plan or of any award, will be final and conclusive.

The Compensation Committee may amend the 2008 Plan from time to time without further approval by stockholders, except where the amendment must be approved by stockholders in order to comply with applicable legal requirements or the requirements of the principal securities exchange, association or quotation system on which our Common Stock is listed or quoted (currently, NASDAQ). Further, if an amendment to the 2008 Plan would increase the number of shares of our Common Stock that may be issued or transferred upon the exercise of ISOs, then that amendment will be subject to stockholder approval and will not be effective unless and until that approval has been obtained.

Subject to the foregoing, the Compensation Committee may amend the terms of any award granted under the 2008 Plan prospectively or retroactively, except in the case of a covered employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code. No amendment to any award may materially and adversely affect the rights of any participant taken as a whole without his or her consent.

Change of Control

Awards under the 2008 Plan may provide that, upon a change of control of Activision Blizzard, those awards will become vested or earned, in whole or in part. For example, an award of options or SARs may provide that unvested options or SARs will become vested and immediately exercisable, either in whole or in part, upon a change of control. Similarly, awards of restricted shares, restricted share units, performance shares and performance units, custom awards and incentive bonuses may provide that the restrictions or other conditions prescribed by the Compensation Committee, if any, with respect thereto will automatically lapse, expire and terminate, and those awards will be deemed to be earned, in whole or in part, upon a change of control.

Transferability

The 2008 Plan expressly provides that, with our consent, which may be granted or withheld in our sole and absolute discretion, a participant may transfer an award for estate planning purposes or pursuant to a domestic relations order, provided the transferee executes an agreement, in form

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satisfactory to us, to be bound by the terms and conditions of the 2008 Plan and the award being transferred. Unless otherwise permitted by the Compensation Committee, except as described in the immediately preceding sentence (1) no award or other derivative security granted under the 2008 Plan is transferable by a participant except, upon death, by will or the laws of descent and distribution and (2) stock options and SARs are exercisable during the optionee's lifetime only by him or her or by his or her guardian or legal representative.

Adjustments

The number of shares authorized under the 2008 Plan, the number of, and, if applicable, amounts payable for, shares subject to outstanding awards and the various limits contained in the 2008 Plan will be adjusted in the event of stock dividends, extraordinary dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations, spin-offs, split-offs, spin-outs, split-ups, reorganizations, liquidations, issuances of rights or warrants, and similar events. In the event of any such transaction or event or in the event of a change of control, the Compensation Committee, in its discretion, may provide in substitution for any or all outstanding awards under the 2008 Plan whatever alternative consideration (including cash), if any, the Compensation Committee, in good faith, determines to be equitable in the circumstances and may require the surrender of all awards so replaced. The Compensation Committee will also make or provide for such adjustments in the number of shares available under the 2008 Plan and the other limitations contained in the 2008 Plan as is appropriate to reflect any transaction or event described above. Further, in the event that we issue warrants or other rights to acquire common shares on a pro-rata basis to all stockholders, the Compensation Committee will make those adjustments in the number of shares authorized under the 2008 Plan and in the limits contained in the 2008 Plan as it determines are equitable, including proportionately increasing the number of authorized shares or any such limit.

Withholding Taxes

To the extent that we or any of our subsidiaries is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a participant or other person under the 2008 Plan and the amounts available to us or our subsidiary for that withholding are insufficient, it will be a condition to the receipt of the payment or the realization of the benefit that the participant or other person make arrangements satisfactory to us for payment of the balance of the taxes required to be withheld, which arrangements (in the discretion of the Compensation Committee) may include relinquishment of a portion of such benefit.

Termination

No award will be made under the 2008 Plan after September 24, 2018, but all awards made on or prior to September 24, 2018 will continue in effect thereafter subject to the terms of those awards and of the 2008 Plan.

Federal Income Tax Consequences

The following discussion of the principal U.S. federal income tax consequences with respect to awards under the 2008 Plan is based on statutory authority and judicial and administrative interpretations as of the date of this proxy statement, which are subject to change at any time (possibly with retroactive effect) and may vary in individual circumstances. Therefore, the following discussion is designed to provide a general understanding of the federal income tax consequences (state, local and other tax consequences are not addressed below). *This discussion assumes that awards granted under the 2008 Plan are exempt from, or comply with, the provisions of Section 409A of the Internal Revenue Code. This discussion is limited to the U.S. federal income tax consequences to individuals who are citizens or* *residents of the U.S. The U.S. federal income tax law is technical and complex and the discussion below represents only a general summary.*

Non-Qualified Stock Options

In general, no income will be recognized by an optionee at the time a non-qualified stock option is granted. At the time of exercise of a non-qualified stock option, ordinary income will be recognized by the optionee in an amount equal to the difference between the exercise price paid for the shares and the fair market value of the shares, if unrestricted, on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a non-qualified stock option, appreciation (or depreciation) in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

Incentive Stock Options

No income generally will be recognized by an optionee upon the grant or exercise of an ISO. The exercise of an ISO, however, may result in alternative minimum tax liability. If shares are issued to the optionee pursuant to the exercise of an ISO and no disqualifying disposition of those shares is made by the optionee within two years after the date of grant or within one year after the transfer of those shares to the optionee, then upon sale of those shares any amount realized in excess of the exercise price will be taxed to the optionee as a capital gain and any loss sustained will be a capital loss. If shares acquired upon the exercise of an ISO are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of those shares at the time of exercise (or, if less, the amount realized on the disposition of those shares if a sale or exchange) over the exercise price paid for the shares. Any further gain (or loss) realized by the participant generally will be taxed as capital gain (or loss).

Stock Appreciation Rights

Generally, no income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant normally will be required to include as taxable ordinary income in the year of exercise an amount equal to the amount of cash received and the fair market value of any unrestricted shares received on the exercise.

Restricted Shares

A recipient of restricted shares generally will be subject to tax at ordinary income rates on the fair market value of the restricted shares (reduced by any amount paid by the participant for the restricted shares) at the time the shares are no longer subject to forfeiture or restrictions on transfer for purposes of Section 83 of the Internal Revenue Code. However, a recipient who makes an election under Section 83(b) of the Internal Revenue Code within 30 days of the date of grant of the shares will have taxable ordinary income on the date of grant of the shares equal to the excess of the fair market value of the shares (determined without regard to the restrictions) over the purchase price, if any, of the restricted shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted shares that are subject to the restrictions generally will be treated as compensation that is taxable as ordinary income to the participant.

Restricted Share Units

No income generally will be recognized upon the award of restricted share units. The recipient of a restricted share unit award generally will be subject to tax at ordinary income rates on the fair market value of unrestricted shares on the date that the shares are transferred to the participant under the award (reduced by any amount paid by the participant for the restricted share units), and the capital gains/loss holding period for the shares will also commence on that date.

Performance Shares and Performance Units

No income generally will be recognized upon the grant of performance shares or performance units. Upon payment in respect of the earn-out of performance shares or performance units, the recipient generally will be required to include as taxable ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any unrestricted shares received.

Senior Executive Plan Bonuses

The participant generally will be required to include as ordinary income in the year of receipt an amount equal to the amount of cash received and the fair market value of any non-restricted shares of our Common Stock received as payment of a bonus.

Tax Consequences to Activision Blizzard or Subsidiary

To the extent that a participant recognizes ordinary income in the circumstances described above, we or the subsidiary of ours for which the participant performs services will be entitled to a corresponding deduction provided that, among other things, the compensation meets the test of reasonableness, is an ordinary and necessary business expense, and is not an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code, and that the deduction is not disallowed by the $1 million limitation on certain compensation of covered employees under Section 162(m) of the Internal Revenue Code.

Section 409A of the Internal Revenue Code

To the extent that any award granted under the 2008 Plan constitutes a deferral of compensation within the meaning of Section 409A of the Internal Revenue Code, the Compensation Committee intends to cause the award to comply with the requirements of Section 409A. If an award does not comply with the requirements of Section 409A, penalty taxes and interest may be imposed on the participant receiving the award.

New Plan Benefits

Awards under the 2008 Plan are discretionary. As a consequence, other than amounts payable under our incentive plans, as discussed below in "Executive Compensation Compensation Discussion and Analysis," and equity awards to unaffiliated directors, as discussed in "Director Compensation Equity Compensation and Stock Ownership Guidelines," we cannot currently determine the number or type of awards that may be granted in the future under the 2008 Plan.

Since the date the 2008 Plan was adopted through April 1, 2010: options to purchase 1,200,000 shares of our Common Stock, 80,000 performance shares and 150,000 restricted shares had been issued to Mr. Tippl; options to purchase 200,000 shares of our Common Stock and 60,000 restricted shares units had been issued to Mr. Hodous; options to purchase 200,000 shares of our Common Stock has been issued to Mr. Morhaime; options to purchase 300,000 shares and 75,000 restricted shares units had been issued to Mr. Walther; options to purchase an aggregate of 2,360,000 shares of our Common Stock, an aggregate of 80,000 performance shares, an aggregate of 150,000 restricted shares and an aggregate of 280,000 restricted share units had been issued to our executive officers as a group (including Messrs. Tippl, Hodous, Morhaime and Walther); options to purchase an aggregate of 60,000 shares of our Common Stock and an aggregate of 50,000 restricted share units had been issued to our non-executive directors as a group; and options to purchase an aggregate of 11,071,657 shares of our

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Common Stock and 3,385,605 restricted share units had been issued to our non-executive employees as a group. No awards had been made to Messrs. Kotick or Hack.

None of our director nominees or any associate of any of our directors, director nominees or executive officers has received any equity incentive award under the 2008 Plan since April 1, 2010. However:

- Mr. Morhaime's employment agreement with us provides that we will recommend to the Compensation Committee that he receive a grant of options to purchase 200,000 shares of our Common Stock once per year during the term of his agreement to the extent awards are being made to our other senior executives during that year. Please see "Executive Compensation Employment Agreements Michael Morhaime" below; and

- Pursuant to his employment agreement with us, as amended in March 2010, if approved by the Compensation Committee, Mr. Tippl will receive a grant of options to purchase 525,000 shares of our Common Stock, 350,000 restricted share units and 225,000 performance shares. Please see "Executive Compensation Employment Agreements Thomas Tippl" below.

Required Vote and Board Recommendation

The affirmative vote of a majority in interest of the stockholders present in person or represented by proxy and entitled to vote at the Annual Meeting is required for the approval of Proposal 2.

The Board recommends that you vote FOR approval of the 2008 Plan, as amended and restated.

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EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information, as of December 31, 2009, with respect to shares of our Common Stock that may be issued under our existing equity compensation plans.

Plan Category	Number of shares of Common Stock to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted average exercise price of outstanding options, warrants and rights(2)	Number of shares of Common Stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders:			
Activision, Inc. 1998 Incentive Plan, as amended	327,983	$ 3.14	(3)
Activision, Inc. 2001 Incentive Plan, as amended	2,852,521	$ 4.92	(3)
Activision, Inc. 2002 Executive Incentive Plan	5,127,116	$ 2.81	(3)
Activision, Inc. 2003 Incentive Plan	28,233,935	$ 7.91	(3)
Activision, Inc. 2007 Incentive Plan	20,341,595	$ 14.64	(3)
Activision Blizzard, Inc. 2008 Incentive Plan	15,776,733	$ 11.39	16,490,932(4)
All stockholder approved plans	72,659,883	$ 9.62	16,490,932
Equity compensation plans not approved by stockholders:			
Activision, Inc. 1999 Incentive Plan, as amended(5)	931,279	$ 3.82	(3)
Activision, Inc. 2002 Incentive Plan, as amended(6)	6,327,451	$ 4.26	(3)
Activision, Inc. 2002 Studio Employee Retention Incentive Plan(7)	403,156	$ 3.05	(3)
Other Employee Stock Options	4(8)	$ 0.51	
All non-stockholder approved plans	7,661,890	$ 4.15	
Total	80,321,773	$ 9.04	16,490,932

(1) Reflects options to purchase shares of our Common Stock and, in the case of the 2003 Plan, the 2007 Plan and the 2008 Plan, 74,559 restricted share units, 5,067,900 restricted share units and 3,365,792 restricted share units, respectively, each reflecting the right to receive a share of Common Stock.

(2)
As there is no exercise price for restricted share units, the values in this column represent the weighted average exercise price of any outstanding options under the relevant plan.

(3)
Upon adoption of the 2008 Plan, pursuant to the terms thereof, we ceased making awards under each of the Prior Plans, although each Prior Plan remains in effect and continues to govern outstanding awards thereunder.

(4)
The number of shares reserved for issuance under the 2008 Plan may be increased from time to time as described in "Proposal 2 Approval of the 2008 Incentive Plan, as Amended and Restated Summary of the 2008 Plan, as Proposed to be Amended and Restated Shares Available Under the 2008 Plan."

(5)
On April 26, 1999, our Board approved the 1999 Plan. The 1999 Plan permitted the granting of non-qualified stock options, ISOs, SARs, restricted share awards, deferred share awards and other equity based awards to our or any of our subsidiaries' directors, officers, key employees, consultants, representatives and other agents. Only non-qualified stock options have been granted under the 1999 Plan. All options granted under the 1999 Plan have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier vesting if certain performance objectives are satisfied). The 1999 Plan expired on May 31, 2009; however, we ceased making awards under the 1999 Plan upon adoption of the 2007 Plan.

(6)
On April 4, 2002, our Board approved the 2002 Plan. The 2002 Plan permitted the granting of non-qualified stock options, ISOs, SARs, restricted share awards, deferred share awards and other equity based awards to our or any of our subsidiaries' or affiliates' officers (other than executive officers), employees, consultants and advisors. Only non-qualified stock options

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have been granted under the 2002 Plan. All options granted under the 2002 Plan have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier vesting if certain performance objectives are satisfied). The 2002 Plan expires on April 3, 2012; however, we ceased making awards under the 2002 Plan upon adoption of the 2007 Plan.

(7)

On December 16, 2002, our Board approved the 2002 Studio Plan. The 2002 Studio Plan permitted the granting of non-qualified stock options and restricted share awards to our or our subsidiaries' and affiliates' key studio employees (other than executive officers and directors). Only non-qualified stock options have been granted under the 2002 Studio Plan. All options granted under the 2003 Plan have an exercise price equal to the fair market value of a share of our Common Stock on the date of grant and a term of 10 years and they generally vest on a *pro rata* basis over a specified period of time or vest in their entirety on an anniversary of the date of grant (subject to possible earlier vesting if certain performance objectives are satisfied). The 2002 Studio Plan expires on December 18, 2012; however, we ceased making awards under the 2002 Studio Plan upon adoption of the 2007 Plan.

(8)

Options granted to Robert A. Kotick to purchase shares of our Common Stock at a price of $0.51 per share, which expire on May 22, 2010.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of April 1, 2010, with respect to the beneficial ownership of our Common Stock by (1) each executive officer named in the "Summary Compensation Table" below (the "named executive officers"), (2) each director and each nominee for election as director, (3) all current executive officers and directors as a group, and (4) each stockholder (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act that we know to be the beneficial owner of more than 5% of our Common Stock. Unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by him or her.

	Shares of Activision Blizzard Beneficially Owned			
Beneficial Owner	**Shares Owned**	**Right to Acquire(1)**	**Total Shares Owned plus Right to Acquire**	**Percent of Outstanding Shares(2)**
Philippe G.H. Capron	7,000		7,000	*
Robert J. Corti	44,000(3)	325,280(4)	369,280	*
Frédéric R. Crépin	7,000		7,000	*
Bruce L. Hack		400,000(5)	400,000	*
Brian Hodous	56,609	480,000(5)	536,609	*
Brian G. Kelly	926,484(6)	1,843,213(7)	2,769,697	*
Robert A. Kotick	4,096,149(8)	9,363,806(9)	13,459,955	1.07
Jean-Bernard Lévy	7,000		7,000	*
Robert J. Morgado	151,332	351,946(10)	503,278	*
Michael Morhaime		220,000(5)	220,000	*
Douglas P. Morris	10,000		10,000	*
Stéphane Roussel		7,500(11)	7,500	*
Richard Sarnoff	42,000	200,834(12)	242,834	*
Thomas Tippl(13)	327,534(14)	711,114(5)	1,038,648	*
Régis Turrini		7,500(11)	7,500	*
Chris B. Walther				
All current directors and executive officers as a group (18 persons)	5,722,210(15)	14,773,030(16)	20,495,240	1.63
VGAC(17)	718,643,890		718,643,890	57.80

* Less than 1%.

(1) Consists of shares of Common Stock that may be acquired upon (a) the exercise of stock options that are exercisable on or within 60 days of April 1, 2010 (*i.e.*, May 31, 2010) or (b) the vesting of restricted share units that vest within 60 days of April 1, 2010 (*i.e.*, May 31, 2010).

(2) The percent of outstanding shares was calculated by dividing the number of shares of our Common Stock beneficially owned by each beneficial owner or group of beneficial owners as of April 1, 2010 (including the number of shares that each beneficial owner or group of beneficial owners had the right to acquire within 60 days of that date) by the sum of (a) 1,243,431,512, the total number of shares of our Common Stock outstanding on that date (including 184,474 restricted shares of Common Stock and 2,500,000 performance shares of Common Stock, all of which were issued and outstanding but subject to forfeiture on that date), and (b) the number of shares that may be acquired by such beneficial owner or group of beneficial owners within 60 days of that date.

(3) Consists of shares held jointly by Mr. Corti and his spouse, who share voting and investment power with respect to such shares.

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(4) Consists of (a) options to purchase 317,780 shares of our Common Stock and (b) 7,500 restricted share units, each representing the conditional right to receive one share of our Common Stock.

(5) Consists of options to purchase shares of our Common Stock.

(6) Consists of (a) 916,884 shares held by the Brian & Joelle Kelly Family Foundation, a charitable foundation of which Mr. Kelly is a trustee, as to which Mr. Kelly disclaims beneficial ownership and (b) 9,600 shares held in UTMAs for the benefit of Mr. Kotick's minor children of which Mr. Kelly is the custodian, as to which Mr. Kelly disclaims beneficial ownership.

(7) Consists of (a) 1,829,032 options to purchase shares of our Common Stock held by Mr. Kelly and (b) 14,181 options to purchase shares our Common Stock held in the 45121I Trust, a trust for the benefit of Mr. Kotick's minor children, of which Mr. Kelly is trustee, as to which Mr. Kelly disclaims beneficial ownership.

(8) Consists of (a) 354,141 shares of our Common Stock held in the 10122B Trust, of which Mr. Kotick is trustee and beneficiary; (b) 2,500,000 performance shares of our Common Stock that were granted to Mr. Kotick on July 9, 2008 in connection with his employment agreement and which vest in accordance with that agreement; (c) 160,610 shares of our Common Stock held in the 10122CP Trust, of which Mr. Kotick and his spouse are joint trustees and joint beneficiaries; (d) 1,076,598 shares held in the 1011 Foundation, Inc. a charitable foundation of which Mr. Kotick is the President, as to which Mr. Kotick disclaims beneficial ownership; and (e) 4,800 shares held in UTMA for the benefit of Mr. Kotick's minor relative of which Mr. Kotick is the custodian, as to which Mr. Kotick disclaims beneficial ownership.

(9) Consists of options to purchase shares of our Common Stock held in the 10122B Trust, of which Mr. Kotick is trustee and beneficiary.

(10) Consists of (a) options to purchase 344,446 shares of our Common Stock and (b) 7,500 restricted share units, each representing the conditional right to receive one share of our Common Stock.

(11) Consists of restricted share units, each representing the conditional right to receive one share of our Common Stock.

(12) Consists of (a) options to purchase 193,334 shares of our Common Stock and (b) 7,500 restricted share units, each representing the conditional right to receive one share of our Common Stock.

(13) Consists of equity held by the Thomas and Laura Tippl Family Trust. Thomas and Laura Tippl are co-trustees of such trust and share voting and investment power with respect thereto.

(14) Includes 184,474 restricted shares of our Common Stock, 64,474 of which vest on October 3, 2010 and one-quarter of the remaining 120,000 of which vest on each of February 15, 2011, 2012, 2013 and 2014.

(15) Includes shares of our Common Stock held indirectly by such individuals through trusts or other entities as described in footnotes (6) and (8) above.

(16) Includes (a) options to purchase 14,735,530 shares of our Common Stock and (b) 37,500 restricted share units, each representing the conditional right to receive one share of our Common Stock.

(17) VGAC is a wholly owned subsidiary of Vivendi. The address for both VGAC and Vivendi is 42, avenue de Friedland, 75380 Paris cedex 08, France.

The following table sets forth information, as of April 1, 2010, with respect to the beneficial ownership of shares of Vivendi by (1) each of our named executive officers, (2) each director and each nominee for election as a director of Activision Blizzard, and (3) all current executive officers and directors of Activision Blizzard, as a group. Unless otherwise noted, the persons named in the table

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have sole voting and investment power with respect to all shares shown as beneficially owned by him or her.

	Shares of Vivendi Beneficially Owned			
Beneficial Owner	**Shares Owned**	**Right to Acquire(1)**	**Total Shares Owned plus Right to Acquire**	**Percent of Outstanding Shares(2)**
Philippe G. H. Capron	27,117(3)	147,368(4)	174,485	*
Robert J. Corti				
Frédéric R. Crépin	4,349(5)	157,061(6)	161,410	*
Bruce L. Hack				
Brian Hodous				
Brian G. Kelly				
Robert A. Kotick				
Jean-Bernard Lévy	244,599(7)	2,235,956(8)	2,480,555	*
Robert J. Morgado				
Michael Morhaime				*
Douglas P. Morris	10,000	121,334(9)	131,334	*
Stéphane Roussel	10,026(10)	190,323(11)	200,349	*
Richard Sarnoff				
Thomas Tippl				
Régis Turrini	13,494(12)	305,387(13)	318,881	*
Chris B. Walther				
All current executive officers and directors as a group (18 persons)	309,585	3,157,429(14)	3,467,014	*

* Less than 1%.

(1) Consists of shares of Vivendi common stock that may be acquired upon (a) the exercise of stock options that are exercisable on or within 60 days of April 1, 2010 or (b) vesting and settlement of restricted share units that vest within 60 days of April 1, 2010 (*i.e.*, May 31, 2010), or shares held in the Vivendi Group Savings Plan. Shares held in the Vivendi Group Savings Plan are restricted and may not be withdrawn from the plan except in limited circumstances as determined under French law. For purposes of this table, the number of shares (rounded to the nearest whole share) attributable to the Vivendi Group Savings Plan is equal to (a) the person's outstanding balance under the plan as of April 1, 2010, divided by (b) €20.17 per share, which is the closing price of Vivendi's common stock as reported on the NYSE Euronext market as of April 1, 2010.

(2) The percent of outstanding shares was calculated by dividing the number of shares of our Common Stock beneficially owned by each beneficial owner or group of beneficial owners as of April 1, 2010 (including the number of shares that each beneficial owner or group of beneficial owners had the right to acquire within 60 days of that date) by the sum of (a) 1,228,779,927, the total number of shares of record of Vivendi that were issued and outstanding on that date, and (b) the number of shares that may be acquired by such beneficial owner or group of beneficial owners within 60 days of that date.

(3) Includes 9,334 shares that are owned but that may not be sold or otherwise transferred until April 24, 2011.

(4) Consists of (a) options to purchase 112,000 shares of Vivendi common stock; (b) 13,334 shares underlying performance-based RSUs which vest on April 17, 2010 (and will then be owned but may not be sold or otherwise transferred until April 19, 2012); and (c) 22,034 shares held in the Vivendi Group Savings Plan.

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(5)
Consists of (a) 2,000 shares that are owned but that may not be sold or otherwise transferred until April 14, 2010, (b) 15 shares that are owned but that may not be sold or otherwise transferred until December 15, 2010; and (c) 2,334 shares that are owned but that may not be sold or otherwise transferred until April 24, 2011.

(6)
Consists of (a) options to purchase 152,000 shares of Vivendi common stock; (b) 2,334 shares underlying performance-based RSUs which vest on April 17, 2010 (and will then be owned but may not be sold or otherwise transferred until April 19, 2012); and (c) 2,727 shares held in the Vivendi Group Savings Plan.

(7)
Includes (a) 30,000 shares that are owned but that may not be sold or otherwise transferred until April 14, 2010; (b) 30,000 shares that are owned but that may not be sold or otherwise transferred until April 24, 2011; and (c) 7,394 shares that are owned by Mr. Lévy's spouse and his two minor children, as to which Mr. Lévy disclaims beneficial ownership.

(8)
Consists of (a) options to purchase 2,200,000 shares of Vivendi common stock; (b) 30,000 shares underlying performance-based RSUs which vest on April 17, 2010 (and will then be owned but may not be sold or otherwise transferred until April 19, 2012); and (c) 5,956 shares held in the Vivendi Group Savings Plan.

(9)
Consists of (a) options to purchase 37,333 shares that are exercisable on or within 60 days of April 1, 2010; (b) unvested options to purchase 74,667 shares of Vivendi common stock, which will vest upon Mr. Morris's termination from Vivendi for any reason other than cause; and (c) 9,334 shares underlying performance-based RSUs, which will vest upon Mr. Morris's termination from Vivendi for any reason other than cause.

(10)
Includes (a) 4,667 shares that are owned but that may not be sold or otherwise transferred until April 14, 2010; (b) 15 shares that are owned but that may not be sold or otherwise transferred until December 15, 2010; and (c) 4,667 shares that are owned but that may not be sold or otherwise transferred until April 24, 2011.

(11)
Consists of (a) options to purchase 182,000 shares of Vivendi common stock; (b) 4,667 shares underlying performance-based RSUs which vest on April 17, 2010 (and will then be owned but may not be sold or otherwise transferred until April 19, 2012); and (c) 3,656 shares held in the Vivendi Group Savings Plan.

(12)
Includes (a) 5,334 shares that are owned but that may not be sold or otherwise transferred until April 14, 2010; (b) 15 shares that are owned but that may not be sold or otherwise transferred until December 15, 2010; and (c) 5,334 shares that are owned but that may not be sold or otherwise transferred until April 24, 2011.

(13)
Consists of (a) options to purchase 288,000 shares of Vivendi common stock; (b) 6,667 shares underlying performance-based RSUs which vest on April 17, 2010 (and will then be owned but may not be sold or otherwise transferred until April 19, 2012); and (c) 10,720 shares held in the Vivendi Group Savings Plan.

(14)
Includes (a) options to purchase 3,046,000 shares of Vivendi common stock; (b) 66,336 shares underlying performance-based RSUs; and (c) 45,093 shares held in the Vivendi Group Savings Plan.

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CORPORATE GOVERNANCE MATTERS

Board of Directors and Committees

Controlled Company Exemption

Since the consummation of the Combination, Vivendi, through its subsidiary VGAC, has held more than 50% of the power to vote for the election of our directors. Accordingly, we qualify as a "controlled company" under Rule 5615(c)(1) of the NASDAQ Marketplace Rules. As a controlled company, under Rule 5615(c)(2) of the NASDAQ Marketplace Rules, we are exempt from the requirements to have:

- a majority of directors who qualify as "independent directors" pursuant to Rule 5605(a)(2) of the NASDAQ Marketplace Rules (which we refer to as "independent directors" in this proxy statement);
- the compensation of our executive officers determined by a majority of independent directors or a compensation committee composed solely of independent directors; and
- our director nominees selected, or recommended for our Board's selection, by either a majority of the independent directors or a nominating committee composed solely of independent directors.

Board Composition and Meetings

Our Board consists of 11 members. Pursuant to our Bylaws, provided that the percentage of outstanding shares of our Common Stock owned by Vivendi together with its controlled affiliates ("Vivendi's voting interest") does not fall and remain below 50% for a period of 90 consecutive days, our Board will include:

- six Vivendi Directors;
- two Executive Directors; and
- three Independent Directors.

Vivendi Directors, Executive Directors and Independent Directors are selected in the manner described under " Special Nominating Subcommittees" below.

If Vivendi's voting interest falls and remains below 50% for a period of 90 consecutive days but does not fall and remain below 10% for a period of 90 consecutive days, then our Board will include a number of Vivendi Directors proportional to Vivendi's voting interest. If, at any time while our securities are listed on NASDAQ or any other U.S. stock exchange, applicable law or listing rules require that at least a majority of our Board be "independent" as defined by the law or listing rules, then (1) the size of our Board will be increased to add the number of additional directors required to satisfy the law or listing rules, and (2) those vacancies will be filled by individuals nominated by the Vivendi Directors and appointed by the affirmative vote of a majority of the directors then in office.

From January 1, 2009 until June 5, 2009, the members of our Board were Philippe G. H. Capron, Robert J. Corti, Frédéric R. Crépin, Bruce L. Hack, Brian G. Kelly, Robert A. Kotick, Jean-Bernard Lévy, Robert J. Morgado, Douglas P. Morris, René P. Pénisson and Richard Sarnoff. Since June 5, 2009, the members of our Board have been Stéphane Roussel, Régis Turrini and Messrs. Capron, Corti, Crépin, Kelly, Kotick, Lévy, Morgado, Morris and Sarnoff.

Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, our Board determined that each of Messrs. Corti, Morgado and Sarnoff was an independent director.

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In accordance with our Corporate Governance Principles and Policies, a copy of which can be accessed on our website at *http://investor.activision.com/documents.cfm*, the Board must meet at least quarterly and in conjunction with the annual meeting of our stockholders. Our Board met six times during 2009, including at least once per quarter and in conjunction with the annual meeting. Each person who served on our Board during 2009 attended at least 75% of the aggregate of (1) the total number of meetings held by our Board during the period for which he was a director and (2) the total number of meetings held by each committee on which he served during the period in which he so served, in each case during 2009, with the exception of Mr. Turrini, who attended two of the three Board meetings held during the period he was a director.

All directors are expected to attend the Annual Meeting. All persons serving as directors at the time attended the 2009 annual meeting of stockholders with the exception of Mr. Hack (who was not seeking reelection).

Board Committees

Our Board has three standing committees, each of which operates under a written charter approved by our Board: (1) the Audit Committee, (2) the Compensation Committee, and (3) the Nominating and Corporate Governance Committee. In addition, there is a subcommittee of the Compensation Committee the Section 16 Subcommittee and there was an additional subcommittee of that committee the Section 162(m) Subcommittee until March 2010 (see " Compensation Subcommittees for the Approval of Certain Awards" below). In accordance with our Bylaws there are also three subcommittees of the Nominating and Corporate Governance Committee the Vivendi Nominating Committee, the Executive Nominating Committee and the Independent Nominating Committee (see " Special Nominating Subcommittees" below). In addition, from time to time, our Board may form special, *ad hoc* committees to which it delegates certain authority to administer particular duties of the Board.

The following table shows the membership of the Board's standing committees and the subcommittees of those committees prior to June 5, 2009:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Robert J. Corti	X(1)	X(2)(3)	
Frédéric R. Crépin		X(2)	
Jean-Bernard Lévy		X(1)(2)	X(4)(5)
Robert J. Morgado	X	X(2)(3)	X(5)(6)
Douglas P. Morris			X(4)
Réne P. Pénisson		X	X(1)(4)(5)
Richard Sarnoff	X		X(5)(6)

(1) Chairperson

(2) Member of the Section 162(m) Subcommittee since its formation in February 2009

(3) Member of the Section 16 Subcommittee since its formation in February 2009

(4) Member of the Vivendi Nominating Committee

(5) Member of the Executive Nominating Committee

(6) Member of the Independent Nominating Committee

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The following table shows the membership of the Board's standing committees and the subcommittees of those committees since June 5, 2009:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Robert J. Corti	X(1)	X(2)(3)	
Frédéric R. Crépin		X(2)	X(1)(4)(5)
Jean-Bernard Lévy		X(1)(2)	X(4)(5)
Robert J. Morgado	X	X(2)(3)	X(5)(6)
Douglas P. Morris			X(4)
Stéphane Roussel		X	
Richard Sarnoff	X		X(5)(6)

(1) Chairperson

(2) Member of the Section 162(m) Subcommittee until its disassembly in March 2010

(3) Member of the Section 16 Subcommittee

(4) Member of the Vivendi Nominating Committee

(5) Member of the Executive Nominating Committee

(6) Member of the Independent Nominating Committee

Audit Committee

You can access the written charter that describes the Audit Committee's composition and responsibilities on our website at *http://investor.activision.com/documents.cfm*.

With respect to membership on the Audit Committee, the charter currently provides that the committee must have at least three members and that:

- all Audit Committee members must be determined by the Board to be independent directors under the NASDAQ Marketplace Rules and otherwise satisfy the NASDAQ Marketplace Rules with respect to audit committee membership (including meeting the criteria for independence set forth in Exchange Act Rule 10A-3);

- no director may serve as a member of the Audit Committee if that director serves on the audit committees of more than two other public companies, unless our Board determines that the simultaneous service would not impair the ability of that director to effectively serve on the Audit Committee;

- all Audit Committee members must understand fundamental financial statements;

- at least one Audit Committee member must be designated by the Board as an "audit committee financial expert" as defined in the applicable rules of the SEC; and no Audit Committee member can have participated in the preparation of the financial statements of Activision Blizzard or any of our current subsidiaries at any time during the three years prior to the proposed appointment of that Audit Committee member.

Further, our Corporate Governance Principles and Policies require that the Audit Committee members be independent under the criteria set forth therein, and the NASDAQ Marketplace Rules require that at least one Audit Committee member meets the financial sophistication requirements set forth therein.

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Based upon information requested from and provided by each director concerning his background, employment and affiliations, our Board has determined that each member of the Audit Committee is an independent director under both the NASDAQ Marketplace Rules and otherwise satisfies the NASDAQ requirements for audit committee membership (including independence as set forth in Exchange Act Rule 10A-3), and that each member of the Audit Committee is financially literate as required under the NASDAQ Marketplace Rules. Our Board has also determined that Mr. Corti is an audit committee financial expert as defined in the applicable rules of the SEC and is financially sophisticated within the meaning of the NASDAQ Marketplace Rules. Messrs. Corti, Morgado and Sarnoff are also independent under the criteria specified in the Corporate Governance Principles and Policies.

The purpose of the Audit Committee is to oversee the accounting and financial reporting processes of Activision Blizzard and our subsidiaries and the audits of our financial statements and internal control over financial reporting. The Audit Committee's responsibilities include:

- selecting, evaluating and overseeing our independent registered public accounting firm, including determining that firm's compensation;
- overseeing our annual audit and quarterly reviews;
- overseeing our financial reporting process and internal controls;
- discussing our risk management policies;
- establishing policies regarding hiring employees from our independent registered public accounting firm and procedures for the receipt and retention of accounting related complaints and concerns;
- reviewing and approving or disapproving related person transactions; and
- reviewing and discussing with the independent auditors the results of the annual audit of our financial statements, including any comments or recommendations of our independent registered public accounting firm, and, based on that review and discussions and other considerations, recommending to our Board whether our financial statements should be included in our Annual Report on Form 10-K.

Our independent registered public accounting firm reports directly to the Audit Committee.

Before we or any of our subsidiaries engage our independent registered public accounting firm to render audit or non-audit services, the Audit Committee must pre-approve the engagement. The chairperson of the Audit Committee may delegate to one or more members of the committee the authority to grant pre-approvals, provided the pre-approvals are reported to the Audit Committee at its next scheduled meeting.

In accordance with our Corporate Governance Principles and Policies, our Audit Committee is also responsible for evaluating any stockholder proposals submitted to us for inclusion in any proxy statement for, and consideration at, any meeting of our stockholders.

The Audit Committee's charter authorizes it to engage independent counsel or other consultants or advisors as it deems appropriate.

In accordance with our Corporate Governance Principles and Policies, the Audit Committee must meet at least quarterly. The Audit Committee met seven times during 2009, including at least once quarterly.

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Compensation Committee

You can access the written charter that describes the Compensation Committee's composition and responsibilities on our website at *http://investor.activision.com/documents.cfm*.

With respect to membership on the Compensation Committee, the charter currently provides that the committee must have at least three members, at least two of whom must be:

- "non-employee directors" as defined in Rule 16b-3 under the Exchange Act;
- "outside directors" as defined under Section 162(m) of the Internal Revenue Code; and
- determined by the Board to be "independent directors" under the NASDAQ Marketplace Rules.

Further, our Corporate Governance Principles and Policies require that the Compensation Committee members who are "independent directors" also be independent under the criteria set forth therein.

Furthermore, in accordance with our Bylaws, provided that Vivendi's voting interest does not fall and remain below 50% for a period of 90 consecutive days, the Compensation Committee must include at least one Independent Director and have a majority of Vivendi Directors, and the chairperson of the committee must be a Vivendi Director. If Vivendi's voting interest falls and remains below 50% for a period of 90 consecutive days but does not fall and remain below 10% for a period of 90 consecutive days, then the Compensation Committee will include at least a number of Vivendi Directors proportional to Vivendi's voting interest.

Based upon information requested from and provided by each director concerning his background, employment and affiliations, our Board has determined that Messrs. Corti and Morgado are each non-employee directors as defined in Rule 16b-3 under the Exchange Act, outside directors as defined under Section 162(m) of the Internal Revenue Code and independent directors under the NASDAQ Marketplace Rules. Messrs. Corti and Morgado are also independent under the criteria specified in the Corporate Governance Principles and Policies. The Board has determined that Messrs. Lévy, Crépin and Roussel are each outside directors as defined under Section 162(m) of the Internal Revenue Code, but none of them have been determined by the Board to be non-employee directors as defined in Rule 16b-3 under the Exchange Act or independent directors under the NASDAQ Marketplace Rules.

The Compensation Committee discharges our Board's responsibilities relating to compensation paid to our directors and executive officers and evaluates and makes recommendations to our Board regarding compensation under our equity incentive plans and other compensation policies, programs, agreements and arrangements. Please see "Executive Compensation Compensation Discussion and Analysis Decision-Making Approach to Executive Compensation Scope of Authority of the Compensation Committee" below for a description of the Compensation Committee's responsibilities.

The Compensation Committee may delegate its authority and duties to subcommittees, individual committee members, or management, as it deems appropriate in accordance with applicable laws, rules and regulations, provided that no subcommittee may consist of fewer than two members. Please see " Compensation Subcommittees for the Approval of Certain Awards" below for a description of the subcommittee currently maintained by the Compensation Committee. As further described in "Executive Compensation Compensation Discussion and Analysis," the Compensation Committee consults with management in formulating compensation plans, but ultimately the Compensation Committee exercises independent judgment in establishing our executive compensation program.

The Compensation Committee's charter authorizes it to engage independent counsel or other consultants or advisors, including compensation consultants, to advise the Compensation Committee with respect to amounts or forms of director compensation and benefits and employee and executive compensation and benefits.

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In accordance with our Corporate Governance Principles and Policies, the Compensation Committee must meet at least twice annually. The Compensation Committee met nine times during 2009.

For additional information regarding the Compensation Committee, see "Executive Compensation Compensation Discussion and Analysis" below.

Compensation Subcommittees for the Approval of Certain Awards

In February 2009, the Compensation Committee established two subcommittees the Section 162(m) Subcommittee and the Section 16 Subcommittee.

Section 162(m) of the Internal Revenue Code limits our ability to deduct compensation paid to individuals who meet the definition of "covered employee" within the meaning of Section 162(m). "Performance-based" compensation (such as performance bonuses) is exempted from this limitation if a number of conditions are satisfied, including the approval of the compensation by a committee consisting solely of outside directors as defined under Section 162(m). At the time the Section 162(m) Subcommittee was established, the Compensation Committee did not consist solely of outside directors, so the subcommittee, which consisted of at least two outside directors, was established. The Section 162(m) Subcommittee's duties consisted of reviewing and approving all proposed performance-based cash compensation to potential covered employees, but it did not have the authority to act without the prior recommendation of the entire Compensation Committee. In March 2010, the Compensation Committee was then comprised solely of outside directors, so the Compensation Committee disassembled the Section 162(m) Subcommittee.

In order to exempt the grant of equity awards to individuals subject to Section 16 of the Exchange Act (and transactions related to such awards, such as the exercise of stock options) from certain provisions of Section 16, the grant must be approved by our entire Board or a committee composed solely of non-employee directors within the meaning of Section 16. The Section 16 Subcommittee, which is required to consist of at least two non-employee directors, was established. The Section 16 Subcommittee's duties consist of reviewing and approving all proposed grants of equity awards to individuals subject to Section 16, but it does not have the authority to act without the prior recommendation of the entire Compensation Committee. When applicable, the approval of equity awards by the Section 16 Subcommittee is also intended to constitute approval for purposes of Section 162(m) of the Internal Revenue Code.

Nominating and Corporate Governance Committee

You can access the written charter that describes the Nominating and Corporate Governance Committee's composition and responsibilities on our website at *http://investor.activision.com/documents.cfm*.

The charter currently provides that the Nominating and Corporate Governance Committee must consist of at least three directors.

Furthermore, in accordance with our Bylaws, provided that Vivendi's voting interest does not fall and remain below 50% for a period of 90 consecutive days, the committee will include at least one Independent Director and have a majority of Vivendi Directors, and the chairperson of the committee will be a Vivendi Director. If Vivendi's voting interest falls and remains below 50% for a period of 90 consecutive days but does not fall and remain below 10% for a period of 90 consecutive days, then the Nominating and Corporate Governance Committee will include at least a number of Vivendi Directors proportional to Vivendi's voting interest.

Based upon information requested from and provided by each director concerning his background, employment and affiliations, our Board has determined that Messrs. Morgado and Sarnoff are each

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independent directors. Messrs. Morgado and Sarnoff are also independent under the criteria specified in the Corporate Governance Principles and Policies. None of Messrs. Crépin, Lévy and Morris has been determined by the Board to be independent directors under the NASDAQ Marketplace Rules.

In accordance with our Bylaws, we maintain three subcommittees of the Nominating and Corporate Governance Committee (the "Special Nominating Subcommittees") whose primary function is to nominate Board candidates in accordance with our Bylaws. Please see " Special Nominating Subcommittees" below.

The Nominating and Corporate Governance Committee's other responsibilities (which may be discharged with the assistance of the Special Nominating Subcommittees) include:

- periodically evaluating the size of our Board and recommending to the Board any appropriate increase or decrease;
- making recommendations to our Board regarding the size and composition of each standing committee of the Board;
- periodically reviewing our Certificate of Incorporation and Bylaws as they relate to corporate governance matters and recommending changes to our Board;
- overseeing the evaluation of our Board; and
- assisting in management succession planning.

The Nominating and Corporate Governance Committee's charter authorizes it to engage independent counsel or other consultants or advisors as it deems appropriate, including a search firm to assist in the identification of director candidates.

In accordance with our Corporate Governance Principles and Policies, the Nominating and Corporate Governance Committee must meet at least twice annually. The Nominating and Corporate Governance Committee met twice during 2009.

Special Nominating Subcommittees

Pursuant to our Bylaws, our Board maintains the following Special Nominating Subcommittees of the Nominating and Corporate Governance Committee:

- the Vivendi Nominating Committee, which includes only Vivendi Directors;
- the Executive Nominating Committee, which includes two Vivendi Directors and two Independent Directors; and
- the Independent Nominating Committee, which includes only Independent Directors.

The Vivendi Nominating Committee, Executive Nominating Committee and Independent Nominating Committee nominate the Vivendi Director nominees, the Executive Director nominees and the Independent Director nominees, respectively.

The Nominating and Corporate Governance Committee will consider Independent Director candidates submitted by stockholders, as described below under " Stockholder Recommendation of Directors." In addition, stockholders may nominate Independent Directors in accordance with procedures set forth in our Bylaws, as described below under "Stockholder Proposals and Director Nominations for 2011 Annual Meeting."

The Nominating and Corporate Governance Committee considers the qualifications of potential director nominees as described below under " Director Qualifications." Pursuant to our Corporate Governance Principles and Policies and the Nominating and Corporate Governance Committee's charter, the committee, through the Special Nominating Subcommittees, identifies and evaluates potential candidates. The Special Nominating Subcommittees may consider candidates suggested by its members, other directors, senior management and shareholders and may, at the Company's expense, retain search firms, consultants and other advisors to identify, screen, and/or evaluate candidates. Candidates may be interviewed in person by directors and management.

Pursuant to our Bylaws, the Vivendi Nominating Committee and the Independent Nominating Committee will be maintained as long as Vivendi's voting interest does not fall and remain below 10% for a period of 90 consecutive days, and the Executive Nominating Committee will be maintained as long as Vivendi's voting interest does not fall and remain below 50% for a period of 90 consecutive days.

Pursuant to the investor agreement, provided that Vivendi's voting interest does not fall and remain below 10% for a period of 90 consecutive days, Vivendi and its affiliates will vote their shares of Common Stock in favor of the election of director nominees designated by each of the Independent Nominating Committee and the Executive Nominating Committee and against all proposals to remove Independent Directors or Executive Directors except for malfeasance. For more information about the investor agreement, see "Certain Relationships and Related Transactions Relationships and Transactions Relationships and Transactions with Vivendi and its Affiliates Investor Agreement" below.

Director Qualifications

Skills and Characteristics

As described above under " Special Nominating Subcommittees," pursuant to our Bylaws, we have three Special Nominating Subcommittees the Vivendi Nominating Committee, the Executive Nominating Committee and the Independent Nominating Committee that are responsible for selecting our director nominees, so our director nomination process is largely driven by our corporate governance structure. In accordance with our Corporate Governance Principles and Policies, all director nominees, whether Vivendi Director nominees, Executive Director nominees or Independent Director nominees, should have appropriate skills and characteristics required of Board members, assessed in the context of the perceived needs of the Board at the time. In accordance with the Nominating and Corporate Governance Committee's charter, the Nominating and Corporate Governance Committee and its Special Nominating Subcommittees, in their selection of candidates, consider the following attributes, among others: experience, knowledge, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication and independence. In addition, the committee considers the qualifications of potential nominees identified through the stockholder solicitation procedure described below based on an objective set of criteria established by the committee. These criteria are generally consistent with the attributes listed in the charter, but also include evidence of leadership and the interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company. In selecting candidates, the Nominating and Corporate Governance Committee and the Board take diversity into account, seeking to ensure a representation of diverse perspectives and experience, although the Company's nominating procedures and policies do not prescribe specific standards for diversity.

Other Directorates

Pursuant to our Corporate Governance Principles and Policies, our directors must obtain the approval of the Nominating and Corporate Governance Committee before accepting any board membership at another publicly held company, and in no case can any director serve on more than four other boards of publicly held companies.

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Offer of Resignation Upon Change in Professional Role

Pursuant to our Corporate Governance Principles and Policies, unless the Nominating and Corporate Governance Committee determines otherwise, if a Vivendi Director or an Independent Director retires, changes employment or otherwise has a significant change in his professional role or responsibilities that may reasonably be seen as affecting his ability to serve, he must offer to resign from our Board. Unless our Board or the Nominating and Corporate Governance Committee determines otherwise, or he has an agreement with us to the contrary, if an Executive Director retires, resigns or otherwise has a significant change in his professional role or responsibilities, he must offer his resignation from our Board.

Our Board or, at our Board's discretion, the Nominating and Corporate Governance Committee will consider whether the continued service of any director so offering to resign is appropriate in light of that change, and if our Board or the Nominating and Corporate Governance Committee determines that the director continues to contribute significantly to us, his membership on our Board may continue.

Vacancies on our Board

Pursuant to our Bylaws, any vacancy on our Board will be filled by the affirmative vote of a majority of the remaining directors then in office, provided that until Vivendi's voting interest falls and remains below 10% for a period of 90 consecutive days:

- a vacancy created by the resignation, death or removal of a Vivendi Director may only be filled by the affirmative vote of a majority of the Vivendi Nominating Committee; and

- a vacancy created by the resignation, death or removal of an Independent Director may only be filled by the affirmative vote of a majority of the Independent Nominating Committee.

In addition, until Vivendi's voting interest falls and remains below 50% for a period of 90 consecutive days, a vacancy created by the resignation, death or removal of an Executive Director may only be filled through the unanimous vote of the Executive Nominating Committee.

Stockholder Recommendation of Directors

Stockholders may submit candidates for election as directors in accordance with our Bylaws, as described under "Stockholder Proposals and Director Nominations for 2011 Annual Meeting."

In addition, in accordance with our Corporate Governance Principles and Policies, the Nominating and Corporate Governance Committee will review the qualifications of, and make recommendations to our Board regarding, Independent Director candidates submitted to us by our stockholders. For a director candidate submitted by a stockholder, or group of stockholders, to be considered by the Nominating and Corporate Governance Committee, that recommendation must be in writing and must include the following information:

- the name, address, phone number and email address of the stockholder and evidence of the stockholder's ownership of our Common Stock, including the number of shares beneficially owned and the length of time of ownership;

- the name of the director candidate, the candidate's address, phone number and email address, the candidate's resume or a list of his or her qualifications to be a director of Activision Blizzard and the candidate's consent to be named a director if nominated; and

- a description of any arrangements or understandings between the stockholder and the director candidate and any other persons (including their names), pursuant to which the recommendation is made.

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In addition, our Board has established a procedure to identify potential stockholder nominees to serve as independent directors, pursuant to which the Nominating and Corporate Governance Committee solicits, on an annual basis, recommendations for candidates for nomination from stockholders that have held more than 1% of our Common Stock for at least nine months at the time of the solicitation. The Nominating and Corporate Governance Committee considers the qualifications of any candidates submitted to it in response to those solicitations based on an objective set of criteria established by the Nominating and Corporate Governance Committee, as described above, and, in the exercise of its business judgment and subject to its fiduciary duties, recommends to the Independent Nominating Committee a nominee from among all of the candidates that it has considered. The Independent Nominating Committee retains full authority, subject to its business judgment and its fiduciary duties, to nominate any candidate to stand for election to our Board and to make any recommendations to our stockholders regarding who should elected as a director, and is not required under the procedure to nominate, or recommend in favor the election of, any candidate. No stockholders submitted candidates in response to our solicitation in advance of the Annual Meeting. You can access this procedure, including the objective criteria used by the Nominating and Corporate Governance Committee to evaluate nominees submitted in accordance with the procedure, on our website at *http://investor.activision.com/documents.cfm*.

Board Leadership Structure and Role in Risk Oversight

Our Board of Directors is led by the Chairman of the Board, with the assistance of our Co-Chairman. Neither role is occupied by the person serving as our Chief Executive Officer. The Board feels that this division is appropriate because it believes that our Chief Executive Officer's responsibility is the day-to-day management of the Company, while the primary responsibility of our Board is to oversee the Chief Executive Officer's performance of his function. Having different individuals serve as the Chairman and Co-Chairman, on the one hand, and the Chief Executive Officer, on the other, allows the Chief Executive Officer to focus on his operational responsibilities, while keeping a measure of independence between the oversight function of our Board and those operating decisions. If our Board were to select our Chief Executive Officer or another employee to serve as Chairman, in accordance with our Corporate Governance Principles and Policies, the Independent Directors would consider the appointment of a lead director.

Part of our Board's supervision of our affairs includes overseeing our risk management. The Board discharges these responsibilities primarily through the Audit Committee, which is responsible for discussing with our management the guidelines and policies governing the process by which management assesses and manages our exposure to risk, as well as our major financial risk exposures and the steps they have taken to monitor and manage such exposure. Our management team communicates regularly with the Audit Committee about these matters and, further, our internal audit department annually provides a formal report to the Audit Committee on our management's strategic risk assessment. In addition, the Compensation Committee provides oversight with respect to risks that may be created by our compensation programs. Each member of the Board is invited to attend the meeting of the Audit Committee at which the formal internal audit risk assessment is presented, and the Board of Directors is otherwise kept abreast of its committees' risk oversight and other activities via reports of the committee chairmen to the full Board. The Board believes that, in light of the variety of risks that we face and their interrelated nature, oversight of risk management is ultimately the responsibility of the Board.

Stockholder Communications with our Board

To communicate directly with our full Board, the Vivendi Directors, the Executive Directors, the Independent Directors, any committee of our Board or any individual Board member, stockholders may send written correspondence addressed to those director or directors in care of our Corporate Secretary at Activision Blizzard, Inc., 3100 Ocean Park Blvd., Santa Monica, California 90405.

In accordance with our Corporate Governance Principles and Policies, all communications addressed to our Board or one or more directors will be opened by the Corporate Secretary or his designee to determine whether the contents contain a message to one or more of our directors. Communications that relate to our accounting practices, internal accounting controls or auditing matters will be referred to the chairperson of the Audit Committee. Any other communications that are not advertising materials, promotions of a product or service, patently offensive materials or matters deemed, in the reasonable judgment of the Corporate Secretary or his designee, inappropriate for our Board will be forwarded promptly to the addressee. In the case of communications to our Board or any group or committee of directors, the Corporate Secretary will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the communication is addressed.

Code of Conduct

We have a code of ethics, our Code of Conduct, which applies to all of our directors and employees worldwide, including our Chairman, Co-Chairman, Chief Executive Officer and Chief Financial Officer. We also have a Principal Compliance Officer, who administers our ethics and compliance program. You can access a copy of our Code of Conduct on our website at *http://investor.activision.com/documents.cfm*. Furthermore, we will post any amendments to, or waivers of, the Code of Conduct that apply to our Chairman, Co-Chairman, Chief Executive Officer and Chief Financial Officer, and any other related information on our website at *http://investor.activision.com/documents.cfm*.

EXECUTIVE OFFICERS

The following table sets forth the names, ages and positions of our executive officers as of April 20, 2010.

Name	Age	Office
Michael J. Griffith	53	Vice Chairman of Activision Blizzard and President and Chief Executive Officer of Activision Publishing
Brian Hodous	46	Chief Customer Officer of Activision Blizzard
Robert A. Kotick	47	President and Chief Executive Officer of Activision Blizzard
Michael Morhaime	42	President and Chief Executive Officer of Blizzard Entertainment, Inc.
George L. Rose	48	Executive Vice President and Chief Public Policy Officer of Activision Blizzard
Thomas Tippl	43	Chief Operating Officer and Chief Financial Officer of Activision Blizzard
Chris B. Walther	43	Chief Legal Officer and Secretary of Activision Blizzard
Ann E. Weiser	52	Chief Human Resources Officer of Activision Blizzard

The following are biographical summaries of our executive officers other than Mr. Kotick, for whom a biographical summary is set forth under "Proposal 1 Election of Directors" above. None of our executive officers is related to any other of our executive officers or our directors, and each executive officer holds office at the discretion of our Board and subject to the terms of that executive officer's employment agreement.

Michael J. Griffith became our Vice Chairman in March 2010 and has served as President and Chief Executive Officer of Activision Publishing, Inc. ("Activision Publishing"), a subsidiary of Activision Blizzard and our primary operating unit until the consummation of the Combination, since June 2005. Prior to joining us, Mr. Griffith served in a number of executive level positions at The Procter & Gamble Company, a manufacturer of consumer goods products, from 1981 to 2005, including President of The Procter & Gamble Company's Global Beverage Division from 2002 to 2005, Vice President and General Manager of Coffee Products from 1999 to 2002 and Vice President and General Manager of Fabric & Home Care Japan and Korea and Fabric & Home Care Strategic Planning Asia from 1997 to 1999. Mr. Griffith holds a B.A. degree from Albion College and an M.B.A. degree from the University of Michigan.

Brian Hodous became our Chief Customer Officer in July 2008 in connection with the Combination and was Chief Customer Officer of Activision Publishing from November 2006 until the consummation of the Combination. Prior to joining us, Mr. Hodous was employed by Cadbury Schweppes plc, an international confectionery and beverage company, where he held the position of Group Director and Executive Vice President of Global Sales from 1999 to 2006. Prior to working at Cadbury Schweppes, Mr. Hodous served in various sales and senior management positions of increasing responsibility with Wyeth Pharmaceuticals, Pillsbury, a food products company, Drackett Products, a homecare products producer, and GlaxoSmithKline plc., a pharmaceutical manufacturer. Mr. Hodous holds a B.A. degree in Marketing and Management from Marquette University.

Michael Morhaime became an executive officer of Activision Blizzard in July 2008 in connection with the Combination. Mr. Morhaime co-founded Blizzard Entertainment, Inc. ("Blizzard Entertainment"), now an indirect subsidiary and, along with Activision Publishing, one of our two principal operating units, in February 1991 and transitioned to the role of President from Vice President in April 1998. Mr. Morhaime served on the Executive Committee of Vivendi Games from January 1999, when Blizzard Entertainment became a subsidiary of Vivendi Games, until the consummation of the Combination. Mr. Morhaime holds a B.S. degree in electrical engineering from the University of California at Los Angeles.

George L. Rose became our Executive Vice President and Chief Public Policy Officer in November 2009. Prior to that, he served as our Chief Legal Officer from July 2008, when the Combination was consummated, to November 2009 and was Chief Legal Officer of Activision Publishing from September 2007 until the consummation of the Combination. Mr. Rose joined us in July 1995 and held various positions of increasing responsibility within the Business and Legal Affairs Department since that time, including serving as our Senior Vice President, General Counsel and Secretary from April 2000 until September 2007. Prior to joining us, Mr. Rose was in private practice in Los Angeles from 1986 to 1995. Mr. Rose holds a B.B.A. degree from the University of Michigan and a J.D. degree from Harvard Law School.

Thomas Tippl became our Chief Financial Officer in July 2008 in connection with the Combination and was appointed Chief Operating Officer in March 2010. He served as our Chief Corporate Officer and Chief Financial Officer from March 2009 until March 2010 and has been the Chief Financial Officer of Activision Publishing since October 2005. Prior to joining us, Mr. Tippl served as Head of Investor Relations and Shareholder Services at The Procter & Gamble Company from 2004 to 2005. Mr. Tippl also served as Finance Director of The Procter & Gamble Company, Baby Care, Europe and as a member of the Board of Directors of The Procter & Gamble Company's Fater Italy Joint Venture from 2001 to 2003. Mr. Tippl co-founded The Procter & Gamble Company's Equity Venture Fund in 1999 and also served as Associate Director of Acquisitions and Divestitures for The Procter & Gamble Company from 1999 to 2001. Prior to 1999, Mr. Tippl served in various financial executive positions for The Procter & Gamble Company in Europe, China and Japan. Mr. Tippl holds a Masters degree in Economics & Social Sciences from the Vienna University of Economics and Business Administration.

Chris B. Walther became our Chief Legal Officer in November 2009 and our Secretary in February 2010. Prior to joining us, Mr. Walther held a number of positions of increasing responsibility within the legal department of The Procter & Gamble Company from 1992 to 2009, including serving as General Counsel of Central and Eastern Europe, Middle East and Africa, General Counsel for Northeast Asia and, most recently, as General Counsel for Western Europe. Mr. Walther also led Procter & Gamble's corporate and securities and M&A practices. Before joining Procter & Gamble, Mr. Walther served as a law clerk for Senior Judge Harry W. Wellford of the United States Sixth Circuit Court of Appeals. Mr. Walther holds a B.A. degree from Centre College and a J.D. degree from the University of Kentucky College of Law.

Ann E. Weiser became our Chief Human Resources Officer in July 2008 in connection with the Combination and was Chief Human Resources Officer of Activision Publishing from September 2007 until the consummation of the Combination. Prior to joining us, Ms. Weiser served in a number of executive level human resources positions at Royal Ahold, an international retail operator, from 2001 to 2007, most recently as Chief Human Resource Officer of Royal Ahold's U.S. Foodservice division. Prior to that, Ms. Weiser held a series of increasingly responsible human resources leadership positions at such companies as U.S. Office Products, Mariner Post-Acute Network, a provider of health services, and Kraft, Inc., a food and beverage company. Ms. Weiser holds a B.A. in sociology from California State University in Long Beach, CA.

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EXECUTIVE COMPENSATION

The following discussion and tables set forth information with regard to compensation for services rendered in all capacities to us and our subsidiaries during 2009 by the named executive officers included in the "Summary Compensation Table" below.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis describes the material elements of our executive compensation program and the rationale for the program elements and decisions. This section:

- describes the business environment in which we operate and the resulting requirements for talent;
- summarizes our compensation philosophy and objectives;
- outlines our decision-making approach related to executive compensation; and
- describes the elements and rationale behind our compensation programs for 2009, as well as planned refinements for 2010.

This section also briefly describes certain changes to our compensation arrangements that occurred after December 31, 2009 and prior to filing of this proxy statement. See " Recent Events" below.

Business Environment and Associated Talent Requirements

We operate in the entertainment software industry, which sits at the convergence of the entertainment, media, high-technology and consumer products sectors. Our industry features a number of characteristics, including:

- a high-growth, high-risk environment relative to more mature industries;
- a dependence on "hit titles," which constitute a disproportionate level of revenues and profits relative to other games we sell;
- rising costs of development partially due to increasingly complex technological requirements;
- an increasing importance on building and growing key franchises with sustained game quality; and
- a global customer and end-user demographic with a number of distribution channels.

We continue to improve organizational effectiveness and in-house capabilities to control costs. We believe our success in the business environment in which we operate requires executive talent with the following characteristics:

- significant global experience managing complex brands and franchises;
- an in-depth knowledge of sophisticated strategies and operational models focused on brand management, finance,

- operations, sales and category management; and

- an aptitude for and experience in managing entertainment and high-technology products and talent in a rapidly changing, high-growth, high-risk environment.

Finding top executives with these characteristics often requires recruitment of executives from larger and more mature industries, such as consumer products. For example, several of our named executive officers come from top-tier global consumer products companies that feature well-developed, sophisticated reward and recognition models.

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Compensation Philosophy and Objectives

To respond to these requirements for top executive talent, the Compensation Committee has established the following compensation philosophy for the named executive officers:

Attract and Retain Key Executive Talent. Employment agreements are an important element to attract and retain executive talent and typically provide for a minimum three-year commitment.

Competitive Requirements. Compensation should reflect the competitive talent market from which we recruit. For executives, base salary is targeted at the median of our peer group and the appropriate survey data, while annual cash and total direct compensation are targeted at up to the 75th percentile to attract and retain the highest caliber individuals in the areas where we compete for talent, as well as to reward outstanding performance. For information about our peer group, see "Use of Compensation Surveys and Peer Company Data" below.

Alignment with Stockholders' Interests. Our objective is to align executive compensation with the interests of stockholders through the use of performance-based incentive programs and equity. As such, a significant portion of the compensation opportunity should be variable and linked to performance that increases shareholder value.

Accountability for Achieving Clearly Defined Short- and Long-Term Goals Aligned with Our Strategy. Performance goals for named executive officers should be clearly defined to provide clear alignment between our business strategy, financial results, and incentive payouts.

Currently, we have employment agreements with each of our named executive officers. We believe these agreements are critical in enabling us to attract and retain talent in a highly competitive industry. The employment agreements specify base salary, annual incentive targets, and certain equity awards, and include provisions regarding the consequences of termination of employment and restrictive covenants surrounding executive officer employment, including non-competition and non-solicitation provisions. See "Employment Agreements" below for a summary of the material terms of each agreement.

Our named executive officers each received a front-loaded equity grant at the time of hire or contract renewal, the value of which is targeted so that the total compensation package including salary and annual bonus over the course of the entire contract period, which is typically 3 to 5 years, equates to the 75th percentile versus our peer companies and the applicable survey data. These equity grants vest ratably over the contract term or upon attainment of specified performance objectives, which we believe provides the executive with a more significant equity position up front, enhancing retention, and allowing the executive to benefit from stock price appreciation during his tenure. In addition, in accordance with his employment agreement entered into on July 9, 2008, Mr. Morhaime received a front-loaded option grant at the Combination and also receives annual grants of stock options, consistent with his former equity plan at Vivendi Games, and we may provide supplemental long-term incentive grants to our other executive officers if circumstances warrant.

Decision- Making Approach to Executive Compensation

Scope of Authority of the Compensation Committee

The Compensation Committee's responsibilities include:

reviewing and approving all compensation programs applicable to executive officers who are subject to Section 16 of the Exchange Act, and employees whose projected annual cash compensation exceeds $2 million per year;

establishing and evaluating the long-term strategy of employee compensation;

- reviewing and approving the Chief Executive Officer's corporate goals and evaluating his performance;

- participating in the establishment of equity grant guidelines and overall pool size and approving all equity awards;

- reviewing and discussing with management the compensation-related disclosures included in the proxy statement and annual report;

- reviewing and approving all executive officer employment agreements; and

- annually reviewing the compensation payable to our Board of Directors.

In accordance with our Bylaws, which require a majority of the committee members to be Vivendi designees, the Compensation Committee consists of two independent directors and three directors designated by Vivendi, including the Compensation Committee Chairman. For additional information regarding the Compensation Committee, its charter and its subcommittees, see "Corporate Governance Matters Board of Directors and Committees Compensation Committee" above. In this Compensation Discussion and Analysis, when we refer to the Compensation Committee, we are referring to the committee serving at the time the compensation decision was made.

Role of Executive Officers in Compensation Decisions

The role of the Compensation Committee is to align the executive compensation program with stockholders' interests and our business strategy. The Compensation Committee believes this alignment can be best achieved by consulting with our senior management because of their involvement with our day-to-day operations. As such, management provides the Compensation Committee with valuable insights into our day-to-day operations, what types of rewards and incentives are effective, and recommendations for compensation decisions. For 2009, the Compensation Committee consulted with the named executive officers, as well as our former Chief Legal Counsel, Mr. Rose, and our Chief Human Resources Officer, Ms. Weiser, in formulating compensation plans, and members of that group attended Compensation Committee meetings.

Role of Compensation Consultants in Compensation Decisions

Pursuant to the Compensation Committee's charter, the Compensation Committee may engage compensation consultants to help formulate director and executive compensation. The Compensation Committee retained Frederic W. Cook & Co. Inc. ("Cook & Co.") in 2009 for advice on the appropriateness and competitiveness of our executive compensation programs. The Cook & Co. consultant who performs these services reports directly to the Compensation Committee and regularly attends Compensation Committee meetings. Our management team retained Mercer (US) Inc. ("Mercer") in 2009 to provide information, analyses, and advice regarding executive compensation. The Mercer consultant who performs these services reports to our Chief Human Resources Officer and from time to time attends Compensation Committee meetings. Information provided by the consultants was used by management to assist in developing recommendations for executive compensation for 2009, as well as for 2010.

Factors Considered in Making Compensation Decisions

In general, our senior management team and the Compensation Committee evaluate a variety of factors when making compensation decisions for our executive officers, including:

- an individual's skill set, experience, historical performance and expected future value to the Company, and the impact on us if that individual were to leave the Company;

- the level of total compensation for our other senior executives; and

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- compensation data from peer companies and published surveys as a general market reference.

The Compensation Committee uses the information provided by management and the outside advisors described above to be better informed about Activision Blizzard and the market for executive positions.

Compensation plans and policies are put into practice through individual employment agreements with each of the named executive officers, which are approved by the Compensation Committee at the time of hire or renewal. The Compensation Committee ultimately exercised its independent and subjective judgment in developing and approving each of the employment agreements, with the following compensation parameters in mind:

- Base salary is targeted at the 50th percentile of salaries among our peer group companies and similarly situated executives in the survey data, unless the executive is renewing his contract with no change in responsibilities, in which case the then-current base salary is maintained, subject to annual merit increases.

- Target annual incentive as a percentage of base salary is based on market data and internal equity.

- Total direct compensation is targeted at up to the 75th percentile of the peer group and survey data.

The Committee believes the use of employment agreements that are aligned with these compensation policies helps motivate a high-performing group of executives to drive positive business results.

Use of Compensation Surveys and Peer Company Data

We annually consult third-party surveys prepared by compensation specialists with respect to companies with comparable revenues, market capitalization, industry focus, number of employees, and similar business-related factors to discern broader compensation trends in the market. For 2009 these surveys included the Croner Software Games Survey, the Radford Executive Survey, the Towers Watson General Industry Executive Database, and a custom Radford survey sponsored by Microsoft that researched compensation program changes with respect to the economic downturn.

In addition, we utilized compensation data obtained from SEC filings of our 15 selected peer group companies, discussed below, including compensation elements of those companies' named executive officers, Company-wide equity usage rates over a 3-year period, and potential dilution from employee stock and option grants. The surveys and peer company data help us understand the competitive market for the industries in which we compete for talent, including gaming, technology, entertainment and leisure, and consumer products sectors, as well as the broader market.

In light of our growth and increasingly global business, a new peer group for the post-Combination Company was developed and approved by the Compensation Committee in December 2008. Since its establishment, we have used this peer group as a key reference point to help guide compensation decisions for our executive officers. The primary screening criteria for the selection of the peer group were as follows:

- Industry: gaming, technology, consumer packaged goods, and entertainment & leisure

- Size: revenue (generally $2 billion to $10 billion); market capitalization (approximately $8 billion to $16 billion); and

- Business characteristics: consumer orientation and global operations.

Two companies in our peer group, Take-Two Interactive and Viacom, were outside the initial revenue screen, but the Compensation Committee determined that their industry and business

characteristics warranted their inclusion. In addition, although the overall stock market downturn pushed several peer company market capitalizations below the $8 billion threshold criteria after the peer companies were selected, the Compensation Committee believes these companies continue to be appropriate comparator companies. We believe the inclusion of consumer packaged goods companies along with our more direct industry comparator groups (gaming, technology, and entertainment) is warranted given that several of our named executive officers come from top-tier global consumer products companies and such companies continue to be among those from which we recruit executive talent.

The resulting peer group reflects our blend of gaming, technology, consumer packaged goods and entertainment focus, our revenue and market capitalization taking into account contemplated growth over the next few years, and a similar mix of domestic and international operations. The executive compensation peer group consists of 15 companies, balanced among the four industry groups as indicated below (most recent trailing four quarters of revenue in billions available as of March 2010 are shown in parentheses)

Gaming	**Technology**	**Consumer Packaged Goods**	**Entertainment & Leisure**
Electronic Arts, Inc. ($3.5B)	eBay, Inc. ($8.7B)	H.J. Heinz Company ($10.4B)	Viacom, Inc. ($13.6B)
Take-Two Interactive Software, Inc. ($982m)	Yahoo!, Inc. ($6.5B)	Campbell Soup Company ($7.6B)	Mattel, Inc. ($5.4B)
	Symantec Corporation ($5.9B)	Clorox Corporation ($5.5B)	Hasbro, Inc. ($4.1B)
	Adobe Systems, Inc. ($3.0B)	Hershey Company ($5.3B)	Warner Music Group Corporation ($3.2B)
	Intuit, Inc. ($3.3B)		

While the peer group provides the Compensation Committee with an important general frame of reference, the Compensation Committee, where appropriate, may consider the compensation practices of other specific companies with which we compete directly for executive talent. Furthermore, we evaluate broader industry trends and practices to determine the appropriate elements of compensation and the effective design of each element.

As part of the competitive compensation assessment our Compensation Committee undertook in March 2010, as further described below, the Compensation Committee compared Mr. Kotick's compensation to compensation packages of CEOs in the peer group listed above, with the exception of the Take-Two CEO, who was excluded from the summary statistics because he receives compensation from a third party management company. The Committee also used the compensation surveys indicated above prepared by Radford and Towers Watson for purposes of assessing the competitiveness of Mr. Kotick's compensation.

Compensation Risk Management

The Compensation Committee reviews the Company's incentive compensation plans to determine if the plan design motivates employees to take inappropriate risks that are likely to have a material adverse effect on the Company. The incentive plans in which our named executive officers and other key employees participate are designed to encourage achievement of high levels of performance against challenging targets tied to achievement of the overall corporate strategy, while mitigating potential risks.

Performance measures are balanced between financial, operational and qualitative targets and long and short-term time horizons for achievement. In the Corporate Annual Incentive Plan (the "CAIP"), financial results are capped at 125% to 200% of target, while individual qualitative measures are capped at 120% of target. Activision Blizzard may recover amounts of performance-based compensation (including bonuses and long term incentive awards) in the event of an earnings restatement, if the amounts paid were in excess of what would have been paid had the restated numbers been used. The Compensation Committee does not require the named executive officers to hold shares obtained from equity incentive plans or prescribe ownership guidelines; however, equity

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grants contain recapture provisions should a named executive officer breach his employment agreement with the Company, including post-termination obligations. Short sales or margin accounts with Activision Blizzard securities are prohibited.

Elements of Compensation Program for 2009

An overview of the elements of our compensation program and their purpose is summarized below. Not all of these elements are applicable to all named executive officers.

Compensation Element	Purpose
Salary	Compensate for day-to-day responsibilities.
Annual bonus Corporate Annual Incentive Plan	Drive annual corporate and business unit financial results, as well as individual contributions toward strategic initiatives.
Long-term incentives (*e.g.*, stock options, restricted share awards and performance shares)	Create alignment with stockholders, drive long-term stockholder value, and provide retention.
Perquisites/benefits	Provide modest supplemental benefits to attract key talent.
Retirement payments/benefits	Provide modest supplemental post-retirement income to attract key talent.
Change of control and termination of employment payments/benefits	Ensure unbiased assessment of mergers and acquisitions activity and fair treatment in event of termination.

In addition to the compensation elements described above, Mr. Morhaime also participates in the Blizzard Bonus Plan and a profit-sharing program under the 2008 Plan (the "Morhaime Profit Sharing Plan"). The Blizzard Bonus Plan and Morhaime Profit Sharing Plan, which are described in more detail below, serve as Mr. Morhaime's primary short-term incentives and provide for a sharing of Blizzard Entertainment operating profit and a discretionary payment, thereby providing him with a meaningful incentive to continue to drive the profitability of this division.

Salary

Each of our named executive officers is party to an employment agreement. Salary, along with target annual incentives and long term incentive awards, was initially determined upon the signing or renewal of each executive's employment agreement. The salary and any guaranteed minimum annual salary increases represent the outcome of negotiations with the executive. In approving executive contracts, the Compensation Committee utilizes its judgment to determine the appropriate amount and form of compensation necessary to recruit, retain and motivate the executive. Salary increases are determined based on performance during the previous fiscal year, with reference to competitive market data and salaries of our other executives for internal equity purposes.

Salaries for the named executive officers during 2009 are shown in the table below. Due to the challenging financial environment and a desire to be prudent with our fixed costs during this time, we decided to delay the annual salary increase for our employees until June 2009, except for increases for

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executives whose employment agreements provide for salary increases as of a specific date. In light of this decision, Mr. Kotick elected to forgo a salary increase for 2009.

In March 2010 the Compensation Committee reviewed a competitive compensation assessment using our peer group and survey data to evaluate the competitiveness of our executive compensation program and to evaluate potential refinements for 2010. For information about our peer group, see " Use of Compensation Surveys and Peer Company Data" above. After considering each executive's performance for 2009, the level of total compensation for each of our senior executives, and market data, the Compensation Committee determined 2010 salaries for the named executive officers as indicated in the table below:

Name	Salary on 1/1/2009	Salary for 2009	Salary approved for 2010	Percentage Increase	Contractual Provision
Robert A. Kotick	$ 950,000	$950,000	$1,007,000 (eff. 1/1/2010)	6%	Avg. increase of executive team (excluding promotion increases and contract guarantees)
Thomas Tippl	$ 535,000	$750,000 (eff. 2/15/09)	$850,000 (eff. 3/23/10)	13%(1)	Avg. increase of executive team (excluding promotion increases and contract guarantees)(2)
Brian Hodous	$ 500,000	$575,000 (eff. 8/1/09)	$592,000 (eff. 3/7/10)	3%(3)	None
Michael Morhaime	$ 475,000	$520,000 (eff. 3/1/09)	$751,000(4) (eff. 3/1/10)	5%(4)	None(5)
Chris Walther	n/a	$500,000 (eff. 10/26/09)	$510,000 (eff. 3/7/10)	2%(3)	None

(1) Mr. Tippl's total increase consists of a 6% merit increase effective February 15, 2010 and a 7% increase for his promotion to Chief Operating Officer effective March 23, 2010.

(2) Mr. Tippl's employment agreement was amended in April 2009 in connection with his appointment as our Chief Corporate Officer and Chief Financial Officer, and again in March 2010 in connection with his appointment as Chief Operating Officer. Prior to the April 2009 amendment, he was contractually entitled to a 4% annual salary increase. From February 15, 2010 until March 22, 2010 Mr. Tippl's annual base salary was $795,000.

(3) 6% annual increase prorated for the period since the last increase (for Mr. Hodous) or the executive's start date (for Mr. Walther). We used this proration approach so that, going forward, Mr. Hodous and Mr. Walther may be included in the Company's standard merit increase cycle.

(4) As of January 1, 2010 the portion of Mr. Morhaime's annual bonus that was guaranteed for 2009 was converted into salary, increasing his annual base salary to $715,000. In addition, Mr. Morhaime received a 5% merit increase effective March 1, 2010.

(5) Mr. Morhaime's employment agreement was amended in November 2009. Prior to the amendment, he was contractually entitled to an annual salary increase equal to the greater of 5% and the percentage increase in the consumer price index during the immediately preceding 12 months for Irvine, California.

Corporate Annual Incentive Plan (i.e., the CAIP)

2009 Opportunities. The Compensation Committee established the following threshold, target, and maximum payout opportunities for the named executive officers under our CAIP for 2009. In setting the target levels, the Compensation Committee considered any requirements in the applicable

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employment agreements, competitive market data, our desired pay mix, and compensation levels of our other senior executives. If a named executive officer satisfied (but did not exceed) all performance goals, the executive officer would receive a payment equal to his or her target payout (although the Compensation Committee retained the discretion to reduce award payments). Actual payouts were aligned to performance results and could have ranged as follows:

	2009 Corporate Annual Incentive Plan Payout Opportunity (% of Salary)(1)		
Name	**Minimum**	**Target**	**Maximum(2)**
Robert A. Kotick	0%	200%	322%
Thomas Tippl	0%	100%	169%
Brian Hodous	0%	75%	126%
Michael Morhaime(3)	37.5%(4)	75%	132%
Chris Walther(5)			

(1) Reflects annual opportunity.

(2) The maximum percentages of salary vary for each executive based on the opportunity as a percentage of salary, mix of measures, weightings, and maximum payout of each measure. Maximum payout as a percentage of the target for each measure is shown in the tables below.

(3) In addition to the CAIP opportunity shown above, Mr. Morhaime participated in the Blizzard Bonus Plan, which is a compensation program provided by Blizzard Entertainment, the division for which he is responsible, and the Morhaime Profit Sharing Plan, which in 2009 replaced a similar arrangement formerly provided to Mr. Morhaime by Blizzard Entertainment. Mr. Morhaime's participation in the Blizzard Bonus Plan and Morhaime Profit Sharing Plan are discussed in more detail below.

(4) For 2009 Mr. Morhaime's employment agreement specified that he would receive a guaranteed bonus under the CAIP equal to a specified percentage of his salary. As of January 1, 2010 the guaranteed bonus was canceled, his salary was increased and his CAIP opportunity was reduced proportionately.

(5) Mr. Walther was not eligible to participate in the CAIP in 2009 because his employment with us began after September 30, 2009.

2009 Achievement of Performance Goals and Payouts. We believe a focus on earnings and profitability provides incentives to executives to achieve goals that contribute to increasing stockholder value. For the named executive officers, 70% to 80% of the target opportunity under our CAIP is weighted on non-GAAP measures of profitability. The other 20% to 30% of the award is based on individual measures that support the overall Company strategy and business unit objectives for the year, and are selected by the Compensation Committee based on each named executive officer's responsibilities and areas of oversight. These more qualitative measures include successful product launches, controlling costs, strategic hiring, and improvements in processes. Measures and weightings for each of the named executive officers are shown in the following tables.

Our Compensation Committee and Board established the financial goals and individual performance goals based on the financial plan for the period ended December 31, 2009. The established financial goals required significant year-over-year improvement in profitability, demanded superior performance from our management team, and were selected to drive accountability for Activision Blizzard and/or applicable business units for each executive. In the last eight fiscal years, despite sustained year-over-year revenue and operating income growth, performance-based payouts were below target in four of those fiscal years (including below target with respect to Activision Blizzard operating income in 2009), demonstrating the difficulty of achieving these stretch goals.

Market conditions were challenging in 2009 according to the NDP Group, Charttrack and Gfk, with total retail software sales in the US and Europe down 10% from the prior year. However, despite the market weakness, Call of Duty: Modern Warfare 2 attained record retail sales, and as of December 31, 2009, there were approximately 11.5 million gamers worldwide subscribed to play World of Warcraft. In addition, we had several other successful product launches throughout the year.

For 2009, the threshold level of 85% of targeted non-GAAP Activision Blizzard operating income that was required in order for the Company to fund the CAIP was attained. However, some of our planned product launches, notably Blur and Starcraft II, were delayed until 2010 so no payout was earned on those metrics.

The corporate performance measures used in the CAIP are non-GAAP financial measures. An explanation of how these measures were calculated is provided in the footnotes to the table below. For additional information on the reconciliation of GAAP line items to Non-GAAP measures, please see "Reconciliation of GAAP Net Income (Loss) to Non-GAAP Measures" in Exhibit 99.1 to our Form 8-K filed on February 10, 2010 (which is not incorporated by reference herein).

Non-GAAP Corporate Performance Measures	Performance Goals and Actual Results Goal	Actual Results	Achievement (%)
	(dollars in millions, except share-based amounts)		
Activision Blizzard Operating Income(1)	$ 1,349.8	$ 1,234.1	91%
Activision Blizzard Diluted Earnings Per Share(2)	$ 0.68	$ 0.69	101%
Blizzard Entertainment Operating Income(1)(3)	$ 710.4	$ 555.0	78%
Activision Blizzard Cash Flow(4)	$ 646.1	$ 1,194.0	185% (capped at 125%)

(1) Non-GAAP operating income measures exclude, as applicable: the impact of the change in deferred net revenues and related cost of sales with respect to certain of our online-enabled games; expenses related to stock-based payments; Activision Blizzard's non-core exit operations (which are the operating results of products and operations of the historical Vivendi Games, Inc. businesses that we have exited or substantially wound down); costs related to the Combination (including transaction costs, integration costs, and restructuring activities); and the amortization of intangibles and impairment of intangible assets.

(2) "Activision Blizzard Diluted Earnings Per Share," a non-GAAP financial measure, was calculated as non-GAAP net income, divided by weighted average diluted shares.

(3) Corresponds to segment operating income. For more information, see Note 6 in our consolidated financial statements included in our Annual Report on Form 10-K for the period ended December 31, 2009.

(4) "Activision Blizzard Cash Flow" is an internal measure calculated by adjusting our non-GAAP net income with year-over-year cash changes in working capital and capital expenditures for the year ended December 31, 2009.

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We established performance measures for each individual and assigned a weighting, expressed as percentages, to each performance measure, as reflected in the following table. Maximum and actual payout as a percentage of the target is also shown below. This total percentage of target is then applied to the individual's target percentage of salary.

Name/Measure(1)	Weight (%)	Maximum Payout (As Percentage of Target)	Actual Payout (As Percentage of Target)
Robert A. Kotick TOTAL TARGET PAYOUT $1,900,000			
Activision Blizzard Earnings per Share	50	200%	101%
Activision Blizzard Cash Flow	20	125	125%
Reduce Product Costs	10	120	0%
Improve Depth and Quality of Leadership	10	120	120%
Blur Product Launch	5	120	0%
Licensed Product Launch	5	120	0%
Total	100	161	88%
Thomas Tippl TOTAL TARGET PAYOUT $722,978			
Activision Blizzard Operating Income	60	200	91%
Activision Blizzard Cash Flow	20	125	125%
Reduce Product Costs	10	120	0%
Improve Depth and Quality of Leadership	10	120	120%
Total	100	169	92%
Brian Hodous TOTAL TARGET PAYOUT $401,014			
Business Unit Operating Income	60	200	0%
Activision Blizzard Cash Flow	10	125	125%
Regional Improvements	10	120	0%
Wii Product Launches	10	120	0%
Improve Depth and Quality of Leadership	10	120	120%
Total	100	169	25%
Michael Morhaime TOTAL TARGET PAYOUT $383,161			
Blizzard Entertainment Operating Income	60	200	78%
Activision Blizzard Operating Income	10	200	91%
Product Line Improvement	10	120	0%
Starcraft Product Launch	10	120	0%
Customer Service Quality Improvements	10	120	0%
Total	100	176	56%

(1) Mr. Walther did not participate in the CAIP in 2009 because his employment did not commence in time to be eligible.

All CAIP payouts were based solely on the achievement of specified Company and individual performance measures and the weighting thereof.

Other Annual Incentive Plans and Bonus Programs for 2009

In addition to the CAIP discussed above, we provided other incentive plan and bonus payments to select executives.

The Compensation Committee awarded a special achievement bonus in the amount of $500,000 to Mr. Kotick for his strong 2009 performance. The Committee had the highest degree of satisfaction with Mr. Kotick's accomplishments. In particular, the Compensation Committee assessed the unexpectedly difficult macro-economic and industry conditions, the Company's excellent market share and financial performance relative to its peers, and the successful completion of the Company's integration efforts post-merger.

The Compensation Committee awarded an additional discretionary bonus to Mr. Hodous in the amount of $197,834 to recognize his contributions that the Compensation Committee felt were not adequately reflected in his CAIP award.

The Compensation Committee awarded Mr. Walther a discretionary bonus in the amount of $65,000 to recognize his significant contributions to the Company in the initial months of his employment.

Pursuant to his employment agreement, Mr. Morhaime received an end-of-year bonus in the amount of $260,000 (50% of his salary) under the Blizzard Bonus Plan for 2009. Under the Blizzard Bonus Plan, Mr. Morhaime's target bonus and minimum bonus for 2009 were 50% of his salary and 25% of his salary, respectively. The Blizzard Bonus Plan is provided to Mr. Morhaime as a continuation of a program he participated in while employed by Vivendi Games. The amount earned by Mr. Morhaime was based on a subjective determination by the Compensation Committee.

Mr. Morhaime also participated in the Morhaime Profit Sharing Plan, which provides him a minimum sharing of the "profit sharing pool" which is determined as a percentage of operating income for the Blizzard Entertainment division. For 2009 Mr. Morhaime received the minimum sharing percentage provided for by his employment agreement. Due to the dynamics of the gaming business and Mr. Morhaime's position as well as our strategic focus on profitability, the prevalent market practice of profit sharing programs in the gaming industry, contractual obligations, and to incentivize and reward him for his contribution to Blizzard Entertainment and Activision Blizzard profits, similar to the Blizzard Bonus Plan, we made the decision to maintain a profit sharing component in Mr. Morhaime's compensation going forward. As described in " Employment Agreements Michael Morhaime" below, in March 2009, the provision of Mr. Morhaime's employment agreement relating to profit sharing compensation was amended, so that, beginning in 2009, his opportunity to receive profit sharing payments is under the 2008 Plan rather than the Blizzard profit sharing plan in order to ensure that such payments are deductible as performance based compensation under Section 162(m) of the Internal Revenue Code. The amendment provides Mr. Morhaime with a maximum share of a "profit sharing pool" with the Compensation Committee retaining negative discretion to reduce the amount (but not below the minimum percentage of the pool specified in his employment agreement), and changes the timing of the payment to following year end, eliminating a mid-year payment.

On November 4, 2009, Mr. Morhaime's employment agreement was further amended. Prior to that amendment, Mr. Morhaime was entitled under his employment agreement to a guaranteed minimum annual bonus of 37.5% of his base salary under our CAIP. His employment agreement also provided for a target annual incentive under the Blizzard Bonus Plan equal to 50% of his base salary, with a guaranteed minimum annual incentive under that plan equal to 25% of his base salary. Under the agreement as amended, as of January 1, 2010 the previously guaranteed portion of Mr. Morhaime's annual bonus under the CAIP was added to his base salary (bringing his annual base salary to $715,000), his annual target bonus under the CAIP was reduced from 75% to 27% of his base salary (with no minimum bonus guarantee), and his target and guaranteed annual incentive amounts under the Blizzard Bonus Plan were reduced from 50% and 25% of his base salary to 37% and 18.5% of his base salary, respectively.

Long-Term Incentives

Our long-term incentive program is intended to drive long-term value creation, create alignment with stockholders' interests and encourage retention. The program consists primarily of grants of stock options, as well as restricted stock, performance restricted stock and restricted share units (collectively referred to as "restricted share awards"). Stock options provide value to the executives only in the event the stock price increases, consistent with stockholder objectives. Restricted share awards mirror the ownership interest of stockholders, further aligning the interests of our executives with those of stockholders. Restricted share awards also serve as a retention vehicle, since we generally vest these grants based on continued employment. Certain restricted stock awards for Mr. Kotick and Mr. Tippl have been made with vesting contingent on the achievement of specified performance objectives. For Mr. Kotick the measure is total shareholder return and for Mr. Tippl the measure is reported non-GAAP earnings per diluted share. For additional information about these awards, please see " Grants of Plan Based Awards for 2009" and " Employment Agreements" below.

We believe a combination of stock options and restricted share awards serves to appropriately balance the objectives of the program. In granting equity to executive officers, we typically place a 65-75% weight on options and a 25-35% weight on restricted share awards, except for Mr. Morhaime who receives 100% in stock options per the terms of his employment agreement. We weight options more heavily because their value to the executive is more strongly tied to our stock price growth, as options provide value to executives only if our stock price appreciates above the price on the grant date. Restricted share awards also reward executives for improved stock performance, while enhancing executive retention.

For executive officers, we provide long-term incentive grants as part of employment agreements to secure long-term commitments to our multi-year business growth strategy. Since equity grants are provided to executive officers at the time of their hiring or the renewal of their employment agreement, the value of the awards reflects a multi-year award. We may provide supplemental long-term incentive grants to executive officers if there are circumstances that warrant such additional awards.

All grants of equity securities to employees, including those to executive officers in connection with new or renewed employment agreements, are approved by our Compensation Committee, and, where appropriate, the Section 16 Subcommittee. The effective date of the grant is generally the third trading day following approval if approval is obtained during an open trading window under our insider trading policy. In the event that the Compensation Committee approves a grant when the window is not open because, for example, we are in a regularly scheduled quarter-end blackout period, the effective date of the grant ordinarily is delayed until the window is next scheduled to be open. All stock options have an exercise price equal to the NASDAQ Official Closing Price of our Common Stock on the effective date as reported on Nasdaq.com.

During 2009 we provided long-term incentive awards to Messrs. Tippl, Morhaime, Hodous, and Walther. For Mr. Tippl the value of the equity award was determined based on the terms of his amended employment agreement and his new role as Chief Corporate Officer and Chief Financial Officer as a front-loaded grant for 5 years. For Mr. Morhaime, the number of options awarded was predetermined by the terms of his employment agreement and is intended as an annual grant. For Mr. Hodous, the value of the equity award was determined based on the terms of his new employment agreement and is a front-loaded grant for two years. For Mr. Walther the value of the equity award was determined based on the terms of his new employment agreement and is a front-loaded grant for three years. Details of each agreement are described in " Employment Agreements."

Retirement Arrangements

We offer a 401(k) plan to all employees in the United States, including the named executive officers. We do not maintain other retirement benefit plans such as a qualified pension plan or a special non-qualified or supplemental deferred compensation plan for named executive officers. We believe that retirement arrangements are particular to, and should remain the responsibility of, each individual officer. The emphasis on minimal retirement arrangements ensures that a substantial portion of the named executive officers' long-term wealth accumulation depends on the achievement of Activision Blizzard profitability targets and the appreciation of our Common Stock.

In 2008, Mr. Morhaime participated in a deferred compensation program which was a continuation of the deferred compensation program at Vivendi Games. We terminated the program effective January 2009 as the program was inconsistent with our philosophy regarding retirement arrangements. In January 2009, all deferred amounts were paid out to all participating employees, including Mr. Morhaime. For further details, please see " Non-Qualified Deferred Compensation" below.

Perquisites and Other Personal Benefits

We provide limited perquisites and personal benefits to our named executive officers. Similar to our philosophy on retirement arrangements, we believe that many items that some employers provide as perquisites for their executives and certain personal benefits arrangements are particular to, and should remain the responsibility of, each individual officer. However, according to Mercer's 2009 Cost of Living survey, the Los Angeles urban area where our corporate headquarters is located is still the second most expensive metropolitan area in the United States. Given this relatively high cost of living and housing relative to the areas in which we have traditionally recruited and competed for executive talent, the Compensation Committee has used mortgage assistance, including associated tax reimbursements, to help recruit and retain executive talent. We provided mortgage assistance to Mr. Tippl through February 15, 2009. In addition, we provide Mr. Morhaime with certain other immaterial perquisites and benefits which are consistent with the arrangements he had at Vivendi Games, such as a car allowance and payment or reimbursement for the cost of financial planning services.

In addition, our named executive officers may receive Company-paid life and disability insurance. They are also eligible to participate in benefit programs generally available to all employees, including medical, life and disability insurance benefits programs, generally at the same cost paid by other employees.

We provide very few additional benefits to executives. For further information, please see " Employment Agreements" and the "Summary Compensation Table" below.

Termination of Employment and Change of Control Arrangements

To attract and retain talented executives, we provide severance benefits under certain conditions, which are negotiated with each executive officer in connection with a new or renewed employment agreement. In addition, our Chief Executive Officer is provided certain change of control protection. The Compensation Committee believes these arrangements remain consistent with market practice and will assist the relevant individuals in maintaining objectivity in the context of a potential change of control transaction. These benefits for each of the named executive officers are described under " Potential Payments upon Termination or Change of Control" below.

In March 2009, Bruce Hack's employment with the Company as Chief Corporate Officer was terminated and his departure was considered by the Board to be an "involuntary termination" for purposes of his employment agreement. Upon signing of a mutual release agreement, Mr. Hack was entitled to a lump sum severance payment according to the terms of his employment agreement. The terms of his severance are described below in " Potential Payments upon Termination or Change of Control"

We also made certain amendments to Mr. Morhaime's employment agreement, as described in " Potential Payments upon Termination or Change of Control" below.

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Impact of Tax and Accounting Considerations

In structuring compensation programs, setting individual compensation levels and awarding bonuses and incentive plan payouts, the Compensation Committee considers the potential impact of Section 162(m) of the Internal Revenue Code. This section generally does not allow a publicly held corporation to take a tax deduction when compensation paid to a covered employee (generally, the chief executive officer and any of the corporation's three other highest paid officers other than the chief financial officer) exceeds $1.0 million in any taxable year unless:

- the compensation is payable solely on account of the attainment of pre-established objective performance goals;
- a committee of two or more outside directors determines such performance goals;
- the company's stockholders approve the material terms of the compensation; and
- the committee certifies that the employee has met the performance goals.

The tax deductibility of compensation paid to other executives is not subject to these limitations.

The 2008 Plan permits us to structure performance-based incentives to covered employees in a manner that would allow payments under the 2008 Plan to satisfy the requirements of Section 162(m) for deductibility. This includes the CAIP and the Morhaime Profit Sharing Plan described above.

In 2009, none of our covered employees' salaries exceeded $1.0 million; therefore we may deduct the full amount of each executive's salary. We generally attempt to preserve the deductibility of elements of our performance-based incentives. However, we believe it is important that we retain the flexibility to structure compensation arrangements necessary to attract and retain the best executive talent, even though such elements may not be fully deductible under Section 162(m). For 2009, portions of compensation paid to the named executive officers will not be deductible.

To the extent that any award granted under the 2008 Plan constitutes a deferral of compensation within the meaning of Section 409A of the Code, the Compensation Committee intends to cause the award to comply with the requirements of Section 409A and to avoid the imposition of penalty taxes and interest upon the participant receiving the award.

The Compensation Committee also takes accounting considerations, including the impact of ASC Topic 718, into account in structuring compensation programs and determining the form and amount of compensation awarded.

Recent Events

Amendment to Thomas Tippl's Employment Agreement

On March 23, 2010, we entered into an amendment to Mr. Tippl's employment agreement. The details of this amendment are discussed below under " Employment Agreements Thomas Tippl."

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Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included under "Executive Compensation Compensation Discussion and Analysis" above. Based on that review and discussion, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this proxy statement and also incorporated by reference into our Annual Report on Form 10-K for the period ended December 31, 2009.

Members of the Compensation Committee

Jean-Bernard Lévy (*Chairperson*), Frédéric R. Crépin, Robert J. Corti,
Robert J. Morgado and Stéphane Roussel

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Summary Compensation Table

The table below presents compensation information for each of our named executive officers for services rendered during the periods indicated.

Name and Principal Position	Year(1)	Salary ($)	Bonus(2) ($)	Stock Awards(3)(4) ($)	Option Awards(3) ($)	Non-Equity Incentive Plan Compensation(5) ($)	All Other Compensation(6) ($)	Total ($)
Robert A. Kotick	2009	953,654	500,000			1,667,250	30,104	3,151,008
President and Chief	9MO 08	743,980	5,000,000	34,062,314		1,433,550	3,990	41,243,834
Executive Officer	FY2008	899,560	5,000,000		25,292,704	3,079,798	10,750	34,282,812
	FY2007	797,200			282,258	881,571	8,990	1,970,019
Thomas Tippl								
	2009	726,423		2,645,000	7,970,880	664,417	20,818	12,027,538
Chief Corporate Officer	9MO 08	387,731	562,500			327,531	113,525	1,391,287
and Chief Financial	FY2008	483,385				631,620	164,519	1,279,524
Officer	FY2007	458,654			584,906	573,176	168,857	1,785,593
Bruce Hack(7)								
	2009	440,306	1,000,000				5,326,564	6,766,870
Chief Corporate Officer								
Brian Hodous								
	2009	533,365	245,834	747,600	1,330,325	98,382	38,156	2,993,662
Chief Customer Officer	9MO 08	369,615	168,750			246,795	267,065	1,052,225
	FY2008	417,450				598,500	464,165	1,480,115
	FY2007	148,846	380,000	729,100	1,843,452		89,295	3,190,693
Michael Morhaime								
	2009	514,814	451,580		1,050,000	2,649,899	40,648	4,706,941
President and Chief Executive Officer, Blizzard Entertainment	9MO 08(8)	232,667	415,625		4,177,314	3,492,386	20,428	8,338,420
Chris B. Walther(8)								
	2009	94,231	415,000	865,500	1,592,100		42,302	3,009,133
Chief Legal Officer								

(1) Upon the consummation of the Combination, we changed our fiscal year end from March 31st to December 31st. 9MO 08 refers to the nine month period from April 1, 2008 through December 31, 2008, FY2008 refers to Activision, Inc.'s 2008 fiscal year (from April 1, 2007 through March 31, 2008), and FY2007 refers to Activision, Inc.'s 2007 fiscal year (from April 1, 2006 through March 31, 2007).

(2) For 2009, the amount paid to Mr. Kotick consists of a special achievement bonus paid to him for his performance during that period. Please see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above. The amount paid to Mr. Hack for that period consists of a bonus paid to him in accordance with his employment agreement upon his achievement of certain goals relating to the integration of Activision Blizzard and Vivendi Games. Please see " Employment Agreements Bruce Hack" below for further details pertaining to that bonus. The amount paid to Mr. Morhaime for that period consists of amounts paid to him pursuant to the Blizzard Bonus Program and the guaranteed portion of his CAIP award. Please see " Compensation Discussion and Analysis Elements of Compensation Program for 2009" above and " Employment Agreements Michael Morhaime" below for further details pertaining to these bonus programs. The amount paid to Mr. Hodous for that period consists of a discretionary bonus to him to recognize his contributions that the Compensation Committee felt were not adequately reflected in his CAIP award and a renewal bonus paid to him in accordance with his employment agreement. Please see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above and " Employment Agreements Brian Hodous" below. The amount paid to Mr. Walther for that period consists of a discretionary bonus to him as compensation for his contributions during that period and a signing bonus paid to him in accordance with his employment agreement. Please see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above and " Employment Agreements Chris B. Walther" below.

(3) The amounts in the Stock Awards and Option Awards columns represent the aggregate grant date fair value of stock awards and option awards granted in the period (in each case, computed in accordance with ASC Topic 718). Assumptions and key variables used in the calculation of the grant date fair

values for 2009 are discussed in footnote 19 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 1, 2010. Assumptions and key variables used in the calculation of the grant date fair values for 9MO 08 are discussed in footnote 19 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 27, 2009. Assumptions and key variables used in the calculation of the grant date fair values for FY2008 are discussed in footnote 14 to Activision, Inc.'s audited financial statements included in its Annual Report on Form 10-K for the year ended March 31, 2008 filed with the SEC on May 30, 2008. Assumptions and key variables used in the calculation of the grant date fair values for FY2007 are discussed in footnote 14 to Activision, Inc.'s audited financial statements included in its Annual Report on Form 10-K for the year ended March 31, 2007 filed with the SEC on June 14, 2007. The amounts reported for each period prior to 2009 differs from the amounts we previously reported for those periods, as our prior disclosure consisted of the dollar amounts recognized for financial reporting purposes in the relevant period for awards granted in and prior to that period rather than the aggregate grant date fair value of awards granted in the period.

(4)

The grant date fair value of the performance shares awarded to Mr. Kotick in 9MO 08 is based upon the probable outcome of the performance conditions, excluding the effect of estimated forfeitures. If the highest level of performance were to be assumed, the grant date value of the award to Mr. Kotick would be $37,587,500. The grant date fair value of the performance shares awarded to Mr. Tippl in 2009 assumes the highest level of performance.

(5)

For 2009, the amounts in this column for the named executive officers other than Mr. Morhaime represent cash incentives paid under the CAIP. For Mr. Morhaime, the amount consists of amounts paid to him pursuant to the Morhaime Profit Sharing Plan and the portion of his payout under the CAIP in excess of the amount which was guaranteed under his employment agreement prior to it being amended in November 2009 (which guaranteed portion is reported herein as a bonus). For a discussion of non-equity incentive plans, see " Compensation Discussion and Analysis Elements of Compensation Program for the 2009 Corporate Annual Incentive Plan" and " Other Annual Incentive Plan and Bonus Programs for 2009."

(6)

For 2009, the amounts in this column include the following:

Name	**Company 401(k) plan "matching" contributions**	**Life, disability or medical insurance premiums/ COBRA coverage**	**Mortgage assistance payments or relocation**
Robert A. Kotick	$ 3,300	$ 26,804	
Thomas Tippl	$ 3,300	$ 7,018	$ 10,500
Bruce Hack	$ 4,400	$ 46,693	
Brian Hodous	$ 3,300	$ 7,995	$ 14,000
Michael Morhaime	$ 8,162	$ 19,386	
Chris B. Walther		$ 508	$ 41,794

In addition:

Mr. Hack received $5,177,160 in severance in connection with the termination of his employment (see " Potential Payments upon Termination or Change of Control" below for further details), $37,135 in reimbursements for taxes he incurred with respect to a portion of that severance payment and $61,176 in respect of office facilities and staff support provided to him in New York (in addition to those provided to him in Santa Monica) prior to that termination;

Mr. Hodous received $12,861 in reimbursements for taxes he incurred with respect to his mortgage assistance payments; and

Mr. Morhaime received a car allowance and a stipend for personal financial, accounting, tax and legal services.

We have calculated the incremental cost to us of the compensation listed above based on the amount of payments made by us for the provision of such benefits.

(7)

Mr. Hack's employment with us ended on March 31, 2009. (Following his termination, Mr. Tippl succeeded him in the position of our Chief Corporate Officer.)

(8)

Mr. Walther's employment with us began on October 26, 2009.

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Grants of Plan-Based Awards for 2009

The table below provides information regarding the grants of plan-based awards made during 2009:

Name	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)(2)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards(3) Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units(3) (#)	All Other Option Awards: Number of Securities Underlying Options(3) (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards(4) ($)
Robert A. Kotick				1,900,000	3,059,000							
Thomas Tippl				722,978	1,221,833							
	05/11/2009	04/14/2009(5)					80,000(6)					920,000
	05/11/2009	04/14/2009(5)							150,000(7)			1,725,000
	05/11/2009	04/14/2009(5)								1,200,000(8)	11.50	7,970,880
Bruce Hack												
Brian Hodous				401,014	675,709							
	08/07/2009	07/31/2009(5)							60,000(9)			747,600
	08/07/2009	07/31/2009(5)								200,000(10)	12.46	1,330,325
Michael Morhaime				383,161	674,363							
			(11)	3,272,580(11)	(11)							
	11/09/2009	11/03/2009(5)								200,000(12)	11.54	1,050,000
Chris B. Walther												
	11/09/2009	11/03/2009(5)							75,000(13)			865,500
	11/09/2009	11/03/2009(5)								300,000(14)	11.54	1,592,100

(1) The non-equity incentive plan award opportunities for which our named executive officers were eligible with respect to 2009 consisted of annual incentive plan awards made under the CAIP under our 2008 Plan.

(2) The named executive officers participating in the CAIP for 2009 were not entitled to a minimum amount thereunder except for Mr. Morhaime, whose employment agreement guaranteed him an annual incentive bonus in an amount equal to 37.5% of his base salary at the time the amount of the payout under the CAIP was determined, until that employment agreement was amended in November 2009 to remove that guarantee with regard to performance periods beginning on or after January 1, 2010 (see " Employment Agreements Michael Morhaime" below). (Neither Mr. Hack nor Mr. Walther were eligible to participate in the CAIP for 2009.)

(3) All grants of equity awards made to our named executive officers in 2010 were made under the 2008 Plan.

(4) The grant date fair value of the stock and option awards is computed in accordance with ASC Topic 718. Please see footnote 3 to the Summary Compensation Table for information about the assumptions and key variables used in the calculation of those grant date fair values.

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(5) These equity awards were approved during a "blackout period," as defined in our insider trading policy, so the effective date of the awards was delayed until the first trading day after that blackout period was no longer in effect.

(6) This represents performance shares of our Common Stock, which were granted pursuant to Mr. Tippl's employment agreement with us. Please see " Employment Agreements Tippl Employment Agreement" below. The performance shares were to vest in their entirety on February 15, 2010 if our reported non-GAAP earnings per diluted share for 2009 was at least $0.68. (This performance metric was satisfied and, on February 15, 2010, the performance shares vested. Please see "Compensation Discussion and Analysis Elements of Compensation Program for 2009 Corporate Annual Incentive Plan 2009 Achievement of Performance Goals and Payouts" for a discussion of our performance vis-à-vis that target.)

(7) This represents restricted shares of our Common Stock, which were granted pursuant to Mr. Tippl's employment agreement with us. Please see " Employment Agreements Tippl Employment Agreement" below. Restrictions lapse with respect to one-fifth of these shares of restricted stock on each of February 15, 2010, 2011, 2012, 2013 and 2014. (In accordance with that vesting schedule, the restrictions with respect to 30,000 shares lapsed on February 15, 2010.)

(8) These options to purchase our Common Stock were granted pursuant to Mr. Tippl's employment agreement with us. Please see " Employment Agreements Tippl Employment Agreement" below. One-fifth of these options vest on each of February 15, 2010, 2011, 2012, 2013 and 2014. (In accordance with that vesting schedule, options with respect to 240,000 shares vested on February 15, 2010.)

(9) This represents restricted share units, each representing the conditional right to receive one share of our Common Stock, which were granted pursuant to Mr. Hodous' employment agreement with us. Please see " Employment Agreements Brian Hodous" below. One-half of these restricted share units vest on July 31, 2010 and the other half vest on July 31, 2011, subject to possible earlier vesting of that latter half on a date established by the Compensation Committee upon a determination that we had met or exceeded the non-GAAP operating income target in our annual operating plan for the year ended December 31, 2009. (We did not meet the operating income target for 2009 and the vesting of these restricted share units was not accelerated. Please see "Compensation Discussion and Analysis Elements of Compensation Program for 2009 Corporate Annual Incentive Plan 2009 Achievement of Performance Goals and Payouts" for a discussion of the target and our performance vis-à-vis that target.)

(10) These options to purchase our Common Stock were granted pursuant to Mr. Hodous' employment agreement with us. Please see " Employment Agreements Brian Hodous" below. Three-eighths of these options vest on each of July 31, 2010 and 2011 and the remaining one-quarter of these options vest on July 31, 2012, subject to possible earlier vesting of that remaining quarter on a date established by the Compensation Committee if and when it determines that we have met or exceeded the non-GAAP operating income target in our annual operating plan for the year ending December 31, 2010.

(11) Pursuant to his employment agreement with us, Mr. Morhaime is, subject to the minimum and maximum percentages specified in that agreement, entitled to share in an annual profit sharing pool, the aggregate amount of which depends upon Blizzard Entertainment's profitability for that year. Because the amount to which Mr. Morhaime is entitled cannot be known at the beginning of a year, no target amount is determinable and the target amount shown is a representative amount equal to Mr. Morhaime's share of the aggregate pool paid to Blizzard Entertainment employees with respect to 2008. For more information about the Morhaime Profit Sharing Plan, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above.

(12) These options to purchase our Common Stock were granted pursuant to Mr. Morhaime's employment agreement with us. Please see " Employment Agreements Michael Morhaime" below. One-third of these options vest on each of November 9, 2010, 2011 and 2012.

(13) This represents restricted share units, each representing the conditional right to receive one share of our Common Stock, which were granted pursuant to Mr. Walther's employment agreement with us. Please see " Employment Agreements Chris B. Walther" below. One-third of these restricted share units vest on each of December 31, 2010, 2011 and 2012.

(14) These options to purchase our Common Stock were granted pursuant to Mr. Walther's employment agreement with us. Please see " Employment Agreements Chris B. Walther" below. One-third of these options vest on each of December 31, 2010, 2011 and 2012.

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Outstanding Equity Awards at December 31, 2009

The table below sets forth the outstanding equity awards for the named executive officers as of December 31, 2009:

	Option Awards				Stock Awards			
Name	**Number of Securities Underlying Unexercised Options Exercisable(1) (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested(2) ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Robert A. Kotick					242,424(3)(4)	2,693,331		
							2,500,000(4)(5)	27,775,000
	4(4)		0.51	5/22/2010				
	284,988(4)		3.27	4/4/2011				
	356,402(4)		2.65	10/1/2011				
	703,296(4)		3.94	4/8/2012				
	2,800,004(4)(6)		3.34	7/22/2012				
	1,200,000(4)		1.77	4/1/2013				
	816,000(4)		1.77	3/31/2013				
	950,634(4)(7)		3.87	4/29/2014				
	679,374(4)		6.66	6/20/2015				
	83,364(4)		6.81	4/21/2016				
	262,998(4)		9.57	6/15/2017				
	1,480,000(4)	2,220,000(8)	13.29	12/1/2017				
Thomas Tippl(9)					64,474(4)(10)	716,306		
					150,000(4)(11)	1,666,500		
							80,000(12)(13)	888,800
	391,114	639,998(4)(14)	7.61	10/3/2015				
		80,000(12)(15)	6.81	4/21/2016				
		1,200,000(4)(16)	11.50	5/11/2019				
Bruce Hack	400,000(4)		16.47	7/14/2018				
Brian Hodous					60,000(4)(17)	666,600		
	480,000(4)		7.93	11/3/2016				
		200,000(4)(18)	12.46	8/07/2019				
Michael Morhaime	170,000(4)	430,000(19)	15.04	7/09/2018				
		200,000(12)(20)	11.54	11/09/2019				
Chris B. Walther		300,000(4)(21)	11.54	11/09/2019				
					75,000(4)(22)	833,250		

(1) All exercisable options are currently vested.

(2) Calculated using the NASDAQ Official Closing Price of $11.11 per share of our Common Stock on December 31, 2009, the last trading day in 2009.

(3) These restricted share units vest in full on December 31, 2010.

(4)

The impact of the termination of the executive's employment on this equity award is governed by the executive's employment agreement. Please see " Potential Payments upon Termination or Change of Control" below.

(5)

These performance shares vest in accordance with Mr. Kotick's employment agreement with us. Please see " Employment Agreements Robert A. Kotick" below.

(6)

As a result of Mr. Kotick's transfer by gift, options with respect to 547,410 shares are held by the 8986C Trust, an irrevocable trust for the benefit of Mr. Kotick's minor children, over which Mr. Kotick does not exercise voting or investment power and as to which he disclaims beneficial ownership.

(7)

As a result of Mr. Kotick's transfer by gift, options with respect to 14,181 shares are held by the 45121I Trust, a trust for the benefit of Mr. Kotick's minor children, over which Mr. Kotick does not exercise voting or investment power, as to which he disclaims beneficial ownership.

(8)

These options vest with respect to one-sixtieth of the grant (which was for options to purchase 3,700,000 shares) on the first day of each month in the five years following the date of grant, commencing with January 1, 2008. (In accordance with that vesting schedule, options with respect to approximately 61,667 shares vested on each of January 1, 2010, February 1, 2010, March 1, 2010 and April 1, 2010.)

(9) As a result of Mr. Tippl's transfer by gift, all of his outstanding equity incentive awards are held in the name of the Thomas and Laura Tippl Family Trust. Thomas and Laura Tippl are co-trustees of the trust and share voting and investment power with respect to those securities.

(10) Restrictions lapse with respect to these shares of restricted stock on October 3, 2010.

(11) Restrictions lapse with respect to one-fifth of these shares of restricted stock on each of February 15, 2010, 2011, 2012, 2013 and 2014. (In accordance with that vesting schedule, the restrictions with respect to 30,000 shares lapsed on February 15, 2010.)

(12) The impact of the termination of the executive's employment on this equity award is not governed by the executive's employment agreement and, instead, is consistent with our standard forms of award agreement. Please see " Potential Payments upon Termination or Change of Control" below.

(13) These performance shares were to vest in their entirety on February 15, 2010 if our reported non-GAAP earnings per diluted share for 2009 was at least $0.68. (This performance metric was satisfied and, on February 15, 2010, the performance shares vested. Please see "Compensation Discussion and Analysis Elements of Compensation Program for 2009 Corporate Annual Incentive Plan 2009 Achievement of Performance Goals and Payouts" for a discussion of our performance vis-à-vis that target.)

(14) These options vest in full on October 3, 2010.

(15) These options vest in full on April 1, 2010.

(16) One-fifth of these options vest on each of February 15, 2010, 2011, 2012, 2013 and 2014. (In accordance with that vesting schedule, options with respect to 240,000 shares vested on February 15, 2010.)

(17) One-half of these restricted share units vest on July 31, 2010 and the other half vest on July 31, 2011, subject to possible earlier vesting of that latter half on a date established by the Compensation Committee upon a determination that we had met or exceeded the non-GAAP operating income target in our annual operating plan for the year ended December 31, 2009. (We did not meet the operating income target for 2009 and the vesting of these restricted share units was not accelerated. Please see "Compensation Discussion and Analysis Elements of Compensation Program for 2009 Corporate Annual Incentive Plan 2009 Achievement of Performance Goals and Payouts" for a discussion of the target and our performance vis-à-vis that target.)

(18) Three-eighths of these options vest on each of July 31, 2010 and 2011 and the remaining one-quarter of these options vest on July 31, 2012, subject to possible earlier vesting of that remaining quarter on a date established by the Compensation Committee if and when it determines that we have met or exceeded the non-GAAP operating income target in our annual operating plan for the year ending December 31, 2010.

(19) Options with respect to 10,000 shares vest on the ninth day of each month in the five years following the date of grant, commencing with August 9, 2008. (In accordance with that vesting schedule, options with respect to 10,000 shares vested on each of January 9, 2010, February 9, 2010, March 9, 2010 and April 9, 2010.)

(20) One-third of these options vest on each of November 9, 2010, 2011 and 2012.

(21) One-third of these options vest on each of December 31, 2010, 2011 and 2012.

(22) One-third of these restricted share units vest on each of December 31, 2010, 2011 and 2012.

Option Exercises and Stock Vested for 2009

The table below sets forth details with respect to the options exercised by, and the shares of restricted stock and restricted share units that vested for, the named executive officers in 2009:

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting**	**Value Realized on Vesting ($)**

	(#)		(#)	
Robert A. Kotick	10,106,654(1)	107,460,184	242,425	2,693,342
Thomas Tippl			64,475(2)	765,318
Bruce Hack				
Brian Hodous			21,000	241,500
Michael Morhaime				
Chris B. Walther				

(1) Of these shares, 488,270 were held at the time of exercise of the underlying award by the 8986C Trust, an irrevocable trust for the benefit of Mr. Kotick's minor children, over which Mr. Kotick does not exercise voting or investment power and as to which he disclaims beneficial ownership, and 750,000 were held at the time of exercise of the underlying award by the 75260G Trust, a trust

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for the benefit of Mr. Kotick's minor children, over which Mr. Kotick exercises voting and investment power.

(2)
These shares were held at the time of vesting by the Thomas and Laura Tippl Family Trust.

Non-Qualified Deferred Compensation

The table below presents information with respect to Mr. Morhaime's 2009 participation in the Vivendi Games Executive Deferred Compensation Plan and the Vivendi Games Executive Deferred Compensation Plan II (together, the "DCP"), a deferred compensation program provided by Vivendi Games. The DCP constituted an unfunded, non-qualified deferred compensation plan, the purpose of which was to give selected management or highly compensated employees of Vivendi Games the opportunity to save for their retirement or for other long-term goals on a tax-deferred basis. Under the DCP, eligible employees could elect to contribute up to (1) 50% of their base salary to the DCP, less any required tax withholdings and (2) 100% of incentive bonuses and incentive compensation to the DCP, less any required tax withholdings. Contributions by Vivendi Games (or us, following the Combination) to the accounts of DCP participants was discretionary. Participants were at all times vested 100% in their DCP accounts. The amount in a participant's DCP account was adjusted for interest, gains and losses allocated to his or her account based on the participant's investment elections.

In September 2008, we terminated the program effective January 23, 2009. In January 2009, all deferred amounts were paid out to participating employees, including Mr. Morhaime. Please see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Retirement Arrangements" above. None of the other named executive officers participated in a deferred compensation program during 2009.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Robert A. Kotick					
Thomas Tippl					
Bruce Hack					
Brian Hodous					
Michael Morhaime				1,887,262	
Chris B. Walther					

Employment Agreements

We believe that, to attract and retain the executive talent necessary to lead us, we should enter into an employment agreement with each of our executive officers. The following is a summary of the material terms regarding compensation set forth in the employment agreement we have entered into with each of our named executive officers, other than provisions regarding payments and benefits upon termination or a change of control, which are described under " Potential Payments upon Termination or Change of Control" below.

Robert A. Kotick

Robert A. Kotick is party to an employment agreement with us, pursuant to which he serves as our President and Chief Executive Officer. Mr. Kotick's term of employment under his employment agreement began on December 1, 2007 and will end on December 31, 2012.

Pursuant to the agreement, Mr. Kotick's annual base salary was $950,000 on December 1, 2007 and was and will be increased automatically on January 1st of each year, in an amount at least equal to the average percentage increase approved by the Compensation Committee for members of the executive leadership team with respect to that year, excluding any increases guaranteed by contract or due to an executive's significant promotion or modification in duties. For more information about Mr. Kotick's base salary, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Salary Analysis" above.

Mr. Kotick is also entitled to receive an annual bonus under the CAIP, with a target amount of 200% of his base salary, the actual amount of which will be determined by the Compensation Committee based on his achievement of mutually agreed objectives and his overall performance and our financial performance, and the form of which will be determined by the Compensation Committee in its sole discretion. For more information about performance-based bonuses, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 2009 Achievement of Performance Goals and Payouts" above. In addition, the Compensation Committee, in its sole discretion, may award Mr. Kotick a performance bonus at any time in an amount and form determined by the Compensation Committee. Mr. Kotick is also entitled to participate in all benefit plans generally available to our senior executive officers and we are required to maintain an $8.55 million supplemental term life insurance policy for the benefit of his estate for a period of 10 years from the effective date of the agreement.

As an inducement to enter into his employment agreement, Mr. Kotick received an option to purchase 3,700,000 shares of our Common Stock. In addition, upon the consummation of the Combination, Mr. Kotick received a grant of 2,500,000 performance shares, which vest in 20% increments on each of the first, second, third and fourth anniversaries of the consummation of the Combination, with another 20% to vest on the last day of the term of Mr. Kotick's agreement, in each case subject to our attaining the specified compound annual total stockholder return target for that vesting period (0% for the first year, 5% for the second, 7.5% for the third, 15% for the fourth and 18% for the fifth). If we do not achieve the performance target for a vesting period, none of Mr. Kotick's performance shares mentioned above will vest for that vesting period. If, however, we later achieve a performance target for a subsequent vesting period, then all of the unvested performance shares relating to prior vesting periods will vest on that subsequent vesting date.

Mr. Kotick's employment agreement also provides that all stock options granted to Mr. Kotick prior to January 1, 2007 would vest in full upon the consummation of the Combination. As a result, options to purchase 300,000 shares of our Common Stock that would otherwise have vested on April 10, 2010 vested on July 9, 2008.

Pursuant to the employment agreement, until the second anniversary of the expiration of the term of his employment under the agreement, Mr. Kotick is restricted from soliciting the employment of anyone then employed by us or our affiliates (or anyone who was employed by us or them during the then-most recent six month period). In addition, Mr. Kotick is prohibited from competing with us during the term.

Thomas Tippl

Thomas Tippl is party to an employment agreement with us, which was amended in February 2009 and again in March 2010. Under the employment agreement, Mr. Tippl served as the Chief Financial Officer of Activision Publishing until the consummation of the Combination, as our Chief Financial Officer from the consummation of the Combination until February 2009 and as our Chief Corporate Officer and Chief Financial Officer from February 2009 until March 2010. As amended in March 2010, the agreement sets forth the terms under which he serves as our Chief Operating Officer (as well as continues to serve as our Chief Financial Officer until his replacement is hired).

Mr. Tippl's initial term of employment under the agreement began on October 1, 2005 and the original expiration date under the agreement was September 30, 2010. Prior to the 2009 amendment of the agreement, Activision Publishing had the option to extend his term for an additional period of up to three years if Mr. Tippl's total compensation exceeded $15 million during the initial term, where "total compensation" consisted of his cumulative base salary, cumulative annual bonuses, realized and unrealized gains from all vested options issued to him, the market value of all restricted shares of our Common Stock issued to him that have vested and the amounts realized by him from the sale of any of those shares. As amended in 2009, Mr. Tippl's term of employment will expire on April 15, 2014 (and we will not be able to unilaterally extend that term).

Pursuant to the agreement, Mr. Tippl's annual base salary was $450,000 on October 1, 2005 and was to be increased automatically on October 1st of each year by at least 4% (or whatever higher amount that the Board or the Compensation Committee determined in its sole discretion). As amended in February 2009, the agreement provided for an annual base salary of $750,000 as of February 15, 2009, with automatic increases on February 15th of each year by an amount at least equal to the average percentage increase approved by the Compensation Committee for members of the executive leadership team with respect to that year, excluding any increases guaranteed by contract or due to an executive's significant promotion or modification in duties. Pursuant to the March 2010 amendment of his agreement, Mr. Tippl's annual base salary was increased to $850,000 as of March 23, 2010 and will be increased automatically each year in accordance with the 2009 amendment. For more information about Mr. Tippl's base salary, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Salary Analysis" above.

Mr. Tippl is also eligible for an annual bonus under the CAIP. Initially, the target amount of that bonus was 75% of his base salary. As amended in February 2009, the agreement provided for a target equal to 100% of his base salary, and the agreement currently provides for a target equal to 120% of his base salary. The actual amount of any bonus will be determined by us in our sole discretion based on his overall performance and our performance. For more information about performance-based bonuses, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 2009 Achievement of Performance Goals and Payouts" above. Mr. Tippl is also entitled to participate in all benefit plans generally available to our senior executive officers. Prior to the 2009 amendment to the agreement, we were required to maintain a $2 million supplemental term life insurance policy for the benefit of his estate through the term of his employment, which we agreed to increase to $3 million as part of the 2009 amendment.

As an inducement to enter into the employment agreement in 2005, in connection with the commencement of his employment Mr. Tippl was paid a signing bonus of $100,000 and granted an option to purchase 1,600,000 shares of our Common Stock. In addition, in consideration for abandoning certain long-term compensation, pension benefits and related equity participations with his prior employer, in connection with the commencement of his employment Mr. Tippl was granted 193,424 restricted shares of our Common Stock. Pursuant to his agreement prior to the 2009 amendment, Mr. Tippl was also reimbursed for certain relocation costs and incremental income taxes resulting from those costs and was entitled to an aggregate of $420,000 in mortgage assistance during his initial term (as well as reimbursement for incremental taxes resulting from those payments for the first three years of assistance). However, pursuant to the agreement as amended in 2009, effective February 15, 2009 Mr. Tippl no longer receives mortgage assistance.

As an inducement to enter into the 2009 amendment to the employment agreement, Mr. Tippl was granted (1) an option to purchase 1,200,000 shares of our Common Stock, (2) 150,000 restricted shares and (3) 80,000 performance shares that vested on February 15, 2010 upon our attainment of a specified non-GAAP earnings per diluted share target. Pursuant to the 2010 amendment to the employment agreement, if approved by the Compensation Committee, Mr. Tippl will receive a grant of (1) an option to purchase 525,000 shares, (2) 350,000 restricted share units, and (3) 225,000 performance shares which will vest ratably on each of February 15, 2011, 2012, 2013 and 2014 if our non-GAAP earnings per diluted share for the prior year is at least equal to the earnings per diluted share objective in our annual operating plan for the year (and, even if we fail to meet an objective, may vest in a

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subsequent year if we "over-deliver" in that subsequent year by an amount at least sufficient to make up for the shortfall).

Pursuant to the employment agreement, until the second anniversary of the expiration of the term of his employment under the agreement, Mr. Tippl is restricted from soliciting the employment of anyone who was employed by us or our affiliates during the term of his employment and from inducing any of our business partners to alter its relationship with us. Mr. Tippl is also generally not permitted to seek or negotiate for other employment before the final six months of the term. In addition, Mr. Tippl is prohibited from competing with us during the term.

Bruce Hack

Bruce Hack formerly served as our Chief Corporate Officer and our Vice Chairman pursuant to an employment agreement with us that became effective July 9, 2008 and was terminated on March 31, 2009 in conjunction with Mr. Hack's termination of employment with us.

Pursuant to the agreement, Mr. Hack was entitled to an annual base salary of $1,500,000.

Mr. Hack was also eligible for an annual bonus under the CAIP with a target amount of $1,000,000. The actual amount of the bonus was to be based upon the achievement of mutually agreed upon objectives, provided it was at least $500,000 and no more than $2,000,000. Mr. Hack was also entitled to participate in all benefits plans generally available to our senior executive officers and was furnished with office facilities and staff support in both Santa Monica and New York.

In accordance with the agreement, Mr. Hack received a bonus of $1,000,000 upon the consummation of the Combination and was eligible for a bonus of $1,000,000 if he and we achieved merger integration objectives established by our Chief Executive Officer in consultation with Mr. Hack and approved by our Board.

The agreement provided that we would recommend to the Compensation Committee that Mr. Hack receive a grant of an option to purchase 400,000 shares of our Common Stock (or an equity award of comparable value) at least once per year during the term of his agreement to the extent awards are being made to our other senior executives during that year. Mr. Hack was granted an option to purchase 400,000 shares of our Common Stock in July 2008 but received no other equity awards from us.

Pursuant to the employment agreement, until March 31, 2010, Mr. Hack was restricted from soliciting the employment of anyone then employed by us or our affiliates. In addition, Mr. Hack was prohibited from competing with us during the term of his employment under the agreement.

Brian Hodous

Brian Hodous is party to an employment agreement with Activision Publishing, pursuant to which he serves as our Chief Customer Officer. Mr. Hodous's term of employment under the agreement began on August 1, 2009 and will end on July 31, 2011.

Pursuant to the agreement, Mr. Hodous is entitled to an annual base salary of $575,000, with periodic increases at our discretion. For more information about Mr. Hodous's base salary, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Salary Analysis" above.

Mr. Hodous is also eligible for an annual bonus under the CAIP with a target amount of 75% of his base salary, the actual amount of which will be determined by us in our sole discretion based on his overall performance and our performance. For more information about performance-based bonuses, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 2009 Achievement of Performance Goals and Payouts" above. Mr. Hodous is also entitled to participate in all benefit plans generally available to our executive officers and we are required to maintain a $2 million supplemental term life insurance policy for the benefit of his estate through the term of his employment.

As an inducement to enter into the employment agreement, Mr. Hodous was (1) paid a renewal bonus of $48,000, (2) granted an option to purchase 200,000 shares of our Common Stock and (3) granted 60,000 restricted share units.

Pursuant to the employment agreement, until the second anniversary of the expiration of the term of his employment under the agreement, Mr. Hodous is restricted from soliciting the employment of anyone then employed by us or our subsidiaries (or anyone who was employed by us or them during his final 90 days of employment). Mr. Hodous is also restricted from inducing any of our business partners to alter its relationship with us during the term. Mr. Hodous is also generally not permitted to negotiate for other employment before the final six months of the term. In addition, Mr. Hodous is prohibited from competing with us during the term.

Michael Morhaime

Michael Morhaime is party to an employment agreement with us, pursuant to which he serves as the President and Chief Executive Officer of Blizzard Entertainment. The agreement became effective July 9, 2008 and Mr. Morhaime's term under the agreement will expire on July 31, 2013. The agreement was amended twice in 2009: on March 31st, and again on November 4th. The material terms of the March 31, 2009 amendment were effective immediately and the material terms of the November 4, 2009 amendment took effect on January 1, 2010.

Prior to the being amended in March 2009, Mr. Morhaime's annual base salary under the agreement was $475,000, subject to automatic increases. As amended in March 2009, the employment agreement provided for an annual base salary of $520,000 commencing on March 31, 2009, which was to be increased automatically on March 1 of each year by the greatest of (1) 5%, (2) the percentage increase in the consumer price index during the immediately preceding 12 months for Irvine, California as determined by the U.S. Department of Labor, Bureau of Labor Statistics, and (3) whatever other merit increase our Board approved. Pursuant to the agreement as amended in November 2009, Mr. Morhaime's annual base salary was increased to $715,000 as of January 1, 2010 and he is no longer entitled to automatic annual salary increases. For more information about Mr. Morhaime's base salary, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Salary Analysis" above.

Mr. Morhaime is also eligible for an annual bonus under the CAIP. Ten percent of any such bonus will be based on our financial performance and 90% of that bonus will be based on his achievement of mutually agreed objectives and his overall performance and Blizzard Entertainment's financial performance. Prior being amended in November 2009, the employment agreement provided that the target amount of such bonus would be 75% of Mr. Morhaime's base salary and that the actual amount of such bonus would be at least 37.5%, and no more than 150%, of his base salary at the time his annual incentive plan payment was made, but would otherwise be in our discretion. Pursuant to the agreement as amended in November 2009, the target amount of Mr. Morhaime's bonus is 27% of his base salary and there is no longer any contractual guaranteed minimum, or stipulated maximum, amount of such bonus. For more information about performance-based bonuses, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 2009 Achievement of Performance Goals and Payouts" above.

Mr. Morhaime is also eligible to participate in the Blizzard Bonus Plan. Prior to the November 2009 amendment, the employment agreement provided that the target amount of such bonus would be 50% of his base salary and that the actual amount of such bonus would be at least 25% of Mr. Morhaime's base salary at the time the bonus is paid, but would otherwise be in our Chief

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Executive Officer's discretion. Pursuant to the agreement as amended in November 2009, as of January 1, 2010 the target amount of Mr. Morhaime's bonus was reduced to 37% of his base salary and the guaranteed amount of such bonus was reduced to 18.5% of Mr. Morhaime's base salary at the time the bonus is paid. For more information about the Blizzard Bonus Plan, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above.

Prior to the March 2009 amendment to the employment agreement, Mr. Morhaime was also eligible to participate in the Blizzard profit sharing plan. The agreement provided that Mr. Morhaime would be entitled to a minimum percentage of the profit sharing pool but that the amount of his award would otherwise be in our Chief Executive Officer's discretion. Under his employment agreement as amended in March 2009, Mr. Morhaime no longer participates directly in the Blizzard profit sharing plan, but instead is entitled to performance-based cash compensation on an annual basis pursuant to our 2008 Plan (or any successor plan) based on a share of the earnings generated by Blizzard Entertainment. Mr. Morhaime is entitled to a specified percentage of the profit sharing pool, although the Compensation Committee may exercise negative discretion with respect to his actual annual percentage interest in the pool (subject to a specified minimum percentage). For more information about the Blizzard Profit Sharing Plan, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Other Annual Incentive Plan and Bonus Programs for 2009" above.

Mr. Morhaime is also entitled to participate in all benefit plans generally available to Blizzard Entertainment's senior executive officers (provided that in any case his benefits are in the aggregate at least as favorable to him as those provided to him by Blizzard Entertainment as of October 15, 2007). Mr. Morhaime was entitled to reimbursement of any legal fees he incurred in connection with the negotiation of his agreement. He also receives an annual stipend to reimburse him for his personal financial, accounting, tax and legal services and is entitled to participate in our executive auto allowance program.

As an inducement to enter into the employment agreement, in connection with the commencement of his employment Mr. Morhaime was granted an option to purchase 600,000 shares of our Common Stock in July 2008. In addition, the agreement provides that we will, beginning in 2009, recommend to the Compensation Committee that Mr. Morhaime receive a grant of an option to purchase 200,000 shares of our Common Stock once per year during the term of his agreement to the extent awards are being made to our other senior executives during that year. Accordingly, in November 2009, the Compensation Committee, upon our recommendation, granted Mr. Morhaime an option to purchase 200,000 shares of our Common Stock.

Pursuant to the employment agreement, during the term of his employment under the agreement and during any period following the expiration of the term in which he is receiving severance from us (as well as for any period corresponding to any lump sum severance payment he receives from us), Mr. Morhaime is restricted from soliciting the employment of anyone then employed by us or Blizzard Entertainment and from inducing any of our business partners or Blizzard Entertainment's business partners to terminate its relationship with us or them. In addition, Mr. Morhaime is prohibited from competing with us during the term. Further, during any period in which he is receiving severance from us (as well as for any period corresponding to any lump sum severance payment he receives from us), he must make himself reasonably available to us to provide any information or other assistance we may reasonably request with respect to matters relating to Blizzard Entertainment's business about which he has knowledge as a result of his employment. For information about the severance Mr. Morhaime may receive, see " Potential Payments upon Termination or Change of Control" below.

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Chris B. Walther

Chris B. Walther is party to an employment agreement with Activision Publishing, pursuant to which he serves as our Chief Legal Officer. Mr. Walther's term of employment under the agreement began on October 26, 2009 and will end on December 31, 2012 (subject to our right to extend the term by an additional year upon six months' notice to Mr. Walther).

Pursuant to the agreement, Mr. Walther is entitled to an annual base salary of $500,000, with periodic increases at our discretion. For more information about Mr. Walther's base salary, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 Salary Analysis" above.

Mr. Walther is also eligible for an annual bonus under the CAIP with a target amount of 75% of his base salary, the actual amount of which will be determined by us in our sole discretion based on his overall performance and our performance. For more information about performance-based bonuses, see " Compensation Discussion and Analysis Elements of Compensation Program for 2009 2009 Achievement of Performance Goals and Payouts" above. Mr. Walther is also entitled to participate in all benefit plans generally available to our executive officers and we are required to maintain a $2 million supplemental term life insurance policy for the benefit of his estate through the term of his employment.

As an inducement to enter into the employment agreement, Mr. Walther was (1) paid a signing bonus of $350,000, (2) granted an option to purchase 300,000 shares of our Common Stock and (3) granted 75,000 restricted share units. Pursuant to his agreement, Mr. Walther also received an aggregate of $41,794 to cover certain relocation costs.

Pursuant to the employment agreement, until the second anniversary of the expiration of the term of his employment under the agreement, Mr. Walther is restricted from soliciting the employment of anyone then employed by us or our subsidiaries (or anyone who was employed by us or them during his final 90 days of employment). Mr. Walther is also restricted from inducing any of our business partners to alter its relationship with us during the term. Mr. Walther is also generally not permitted to negotiate for other employment before the final six months of the term. In addition, Mr. Walther is prohibited from competing with us during the term.

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Potential Payments upon Termination or Change of Control

The table below describes the compensation payable to the named executive officers upon termination of employment or change of control. The calculations assume that each of these events occurred on December 31, 2009 with the exception of Mr. Hack's termination, which occurred on March 31, 2009.

Name and Type of Payment/Benefit	Death(1)	Disability(1)	Termination by Activision Blizzard For Cause or Performance Termination(2)	Termination by Activision Blizzard Without Cause or Termination by Employee for Good Reason(3)	Change of Control(4)	Termination by Activision Blizzard Without Cause or Termination by Employee for Good Reason After Change of Control(3)(4)
Robert A. Kotick						
2009 bonus(5)	$ 1,911,400	$ 1,911,400	$	$ 1,911,400	$	$ 1,911,400
Severance payment		950,000		5,700,000		8,550,000
Benefits continuation(6)	28,216	85,216		85,216		85,216
Value of accelerated equity awards(7)	2,693,331	2,693,331		2,693,331	11,110,000	2,693,331
Excise tax gross-up						
Total	$ 4,632,947	$ 4,689,947	$	$ 10,389,947	$ 11,110,000	$ 13,239,947
Thomas Tippl						
2009 bonus(5)	$ 664,417	$ 664,417	$	$ 664,417	$	$ 664,417
Lump-sum payment	1,550,925	1,550,925				
Salary continuation				3,213,699		3,213,699
Benefits continuation(6)	24,928	24,928				
Value of accelerated equity awards(7)	2,249,783	660,851	660,851			
Total	$ 4,490,053	$ 2,901,121	$ 660,851	$ 3,878,116	$	$ 3,878,116
Bruce Hack(8)						
2009 bonus				$		
Lump-sum payment				5,177,160		
Benefits continuation				84,506		
Value of accelerated equity awards				0		
Total				$ 5,261,666		
Brian Hodous						
ALLL	**$2,854**	$3,176				
	54	100				

Unfunded commitments reserve[1]		
Allowance for credit losses	**$2,908**	$3,276

[1]The unfunded commitments reserve is separately recorded in other liabilities in the Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Activity in the ALLL by segment is presented in the tables below:

	Three Months Ended March 31, 2011			
(Dollars in millions)	**Commercial**	**Residential**	**Consumer**	**Total**
Balance at beginning of period	**$1,303**	**$1,498**	**$173**	**$2,974**
Provision for loan losses	**108**	**322**	**21**	**451**
Loan charge-offs	**(185)**	**(385)**	**(45)**	**(615)**
Loan recoveries	**29**	**5**	**10**	**44**
Balance at end of period	**$1,255**	**$1,440**	**$159**	**$2,854**

	Three Months Ended March 31, 2010			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$1,353	$1,592	$175	$3,120
Provision for loan losses	215	601	61	877
Loan charge-offs	(192)	(608)	(62)	(862)
Loan recoveries	23	5	13	41
Balance at end of period	$1,399	$1,590	$187	$3,176

As further discussed in the Company s 2010 Annual Report on Form 10-K, the ALLL is composed of specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for loans carried at fair value. Additionally, the Company does not record an allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss. The Company s LHFI portfolio and related ALLL at March 31, 2011 and December 31, 2010, respectively, is shown in the tables below:

	As of March 31, 2011							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	**$972**	**$193**	**$3,134**	**$431**	**$12**	**$2**	**$4,118**	**$626**
Collectively evaluated	**52,256**	**1,062**	**41,962**	**1,009**	**16,139**	**157**	**110,357**	**2,228**
Total evaluated	**53,228**	**1,255**	**45,096**	**1,440**	**16,151**	**159**	**114,475**	**2,854**
LHFI at fair value	**4**	**-**	**453**	**-**	**-**	**-**	**457**	**-**
Total LHFI	**$53,232**	**$1,255**	**$45,549**	**$1,440**	**$16,151**	**$159**	**$114,932**	**$2,854**

	As of December 31, 2010							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$906	$175	$3,166	$428	$11	$2	$4,083	$605
Collectively evaluated	52,578	1,128	42,867	1,070	15,955	171	111,400	2,369
Total evaluated	53,484	1,303	46,033	1,498	15,966	173	115,483	2,974

LHFI at fair value	4	-	488	-	-	-	492	-
Total LHFI	$53,488	$1,303	$46,521	$1,498	$15,966	$173	$115,975	$2,974

Note 5 Goodwill and Other Intangible Assets

Goodwill is required to be tested for impairment on an annual basis or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No events have occurred or circumstances changed since the annual testing of the Company s goodwill on September 30, 2010 that caused interim testing of goodwill during the first quarter of 2011.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Changes in the carrying amounts of other intangible assets for three months ended March 31 are as follows:

(Dollars in millions)	Core Deposit Core Deposit Intangibles	Core Deposit MSRs LOCOM	Core Deposit MSRs Fair Value	Core Deposit Other	Core Deposit Total
Balance, January 1, 2010	$104	$604	$936	$67	$1,711
Designated at fair value (transfers from amortized cost)	-	(604)	604	-	-
Amortization	(9)	-	-	(3)	(12)
MSRs originated	-	-	66	-	66
Changes in fair value					
Due to fair value election	-	-	145	-	145
Due to changes in inputs or assumptions [1]	-	-	(45)	-	(45)
Other changes in fair value [2]	-	-	(65)	-	(65)
Balance, March 31, 2010	$95	$-	$1,641	$64	$1,800
Balance, January 1, 2011	**$67**	**$-**	**$1,439**	**$65**	**$1,571**
Amortization	**(8)**	**-**	**-**	**(3)**	**(11)**
MSRs originated	**-**	**-**	**88**	**-**	**88**
Sale of MSRs	**-**	**-**	**(7)**	**-**	**(7)**
Changes in fair value					
Due to changes in inputs or assumptions [1]	**-**	**-**	**70**	**-**	**70**
Other changes in fair value [2]	**-**	**-**	**(52)**	**-**	**(52)**
Balance, March 31, 2011	**$59**	**$-**	**$1,538**	**$62**	**$1,659**

[1] Primarily reflects changes in discount rates and prepayment speed assumptions, due to changes in interest rates.

[2] Represents changes due to the collection of expected cash flows, net of accretion, due to passage of time.

Note 6 - Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities

Certain Transfers of Financial Assets and related Variable Interest Entities

The Company has transferred residential and commercial mortgage loans, student loans, commercial and corporate loans, and CDO securities in sale or securitization transactions in which the Company has, or had, continuing involvement. All such transfers have been accounted for as sales by the Company. The Company s continuing involvement in such transfers includes owning certain beneficial interests, including senior and subordinate debt instruments as well as equity interests, servicing or collateral manager responsibilities, and guarantee or recourse arrangements. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. In accordance with the accounting guidance related to transfers of financial assets that became effective on January 1, 2010, upon completion of future transfers of assets that satisfy the conditions to be reported as a sale, the Company will derecognize the transferred assets and recognize at fair value any beneficial interests in the transferred financial assets such as trading assets or securities AFS, as well as servicing rights retained and guarantee liabilities incurred. See Note 12, Fair Value Election and Measurement, to the Consolidated Financial Statements, for further discussion of the Company s fair value methodologies.

When evaluating transfers and other transactions with VIEs for consolidation under the VIE consolidation guidance, the Company first determines if it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in the transferred assets and, at times, servicing rights and collateral manager fees. If the Company has a VI in the entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If the Company determines that it does not have power over the significant activities of the VIE, an analysis of the economics of the VIE is not necessary. If it is determined that the Company does have power over the significant activities of the VIE, the Company must determine if it also has an obligation to absorb losses and/or the right to receive benefits that could potentially be significant to the VIE.

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement.

Residential Mortgage Loans

The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Company is required to service the loans in accordance with the issuers servicing guidelines and standards. The Company sold residential mortgage loans to these entities, which resulted in pre-tax gains of $12 million and $85 million, including servicing rights, for the three months ended March 31, 2011 and 2010, respectively. These gains are included within mortgage production related loss in the Consolidated Statements of Income/(Loss). These gains include the change in

Notes to Consolidated Financial Statements (Unaudited)-Continued

value of the loans as a result of changes in interest rates from the time the related IRLCs were issued to the borrowers but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 11, Derivative Financial Instruments, to the Consolidated Financial Statements for further discussion of the Company s hedging activities. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs, which are discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

In a limited number of securitizations, the Company has transferred loans to trusts, which previously qualified as QSPEs, sponsored by the Company. These trusts issue securities which are ultimately supported by the loans in the underlying trusts. In these transactions, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The received securities are carried at fair value as either trading assets or securities AFS. As of March 31, 2011 and December 31, 2010, the fair value of securities received totaled $186 million and $193 million, respectively. At March 31, 2011, securities with a fair value of $167 million were valued using a third party pricing service. The remaining $19 million in securities consist of subordinate interests from a 2003 securitization of prime fixed and floating rate loans and were valued using a discounted cash flow model that uses historically derived prepayment rates and credit loss assumptions along with estimates of current market discount rates. The Company did not significantly modify the assumptions used to value these retained interests at March 31, 2011 from the assumptions used to value the interests at December 31, 2010. For both periods, analyses of the impact on the fair values of two adverse changes from the key assumptions were performed and the resulting amounts were insignificant for each key assumption and in the aggregate.

The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power. In almost all of its securitization transactions, the Company does not retain power over the securitization as a result of these rights held by the master servicer; therefore, an analysis of the economics of the securitization is not necessary. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. As of January 1, 2010, the Company determined that it was not the primary beneficiary of, and thus did not consolidate, any of these securitization entities. No events occurred during the three months ended March 31, 2011 that would change the Company s previous conclusion that it is not the primary beneficiary of any of these securitization entities. Total assets as of March 31, 2011 and December 31, 2010 of the unconsolidated trusts in which the Company has a VI are $616 million and $651 million, respectively.

The Company s maximum exposure to loss related to the unconsolidated VIEs in which it holds a VI is comprised of the loss of value of any interests it retains and any repurchase obligations it incurs as a result of a breach of its representations and warranties.

Separately, the Company has accrued $91 million and $81 million as of March 31, 2011 and December 31, 2010, respectively, for expected losses related to certain of its representations and warranties made in connection with certain transfers of nonconforming loans. The Company did not repurchase a significant amount of these previously transferred loans during the three months ended March 31, 2011 or during the year ended December 31, 2010.

Commercial and Corporate Loans

In 2007, the Company completed a $1.9 billion structured sale of corporate loans to multi-seller CP conduits, which are VIEs administered by unrelated third parties, from which it retained a 3% residual interest in the pool of loans transferred, which does not constitute a VI in the third party conduits as it relates to the unparticipated portion of the loans. In conjunction with the transfer of the loans, the Company also provided commitments in the form of liquidity facilities to these conduits. In January 2010, the administrator of the conduits drew on these commitments in full, resulting in a funded loan to the conduits that was recorded on the Company s Consolidated Balance Sheets. During the quarter ended March 31, 2011, the Company exercised its clean up call rights on the structured participation and repurchased the remaining corporate loans. In conjunction with the clean up call, the outstanding amount of the liquidity facilities and the residual interest were paid off. The exercise of the clean up call was not material to the Company s financial condition, results of operations, or cash flows.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the CLOs. In addition to retaining certain securities issued by the CLOs, the Company also acts as collateral manager for these CLOs. The securities retained by the Company and the fees received as collateral manager represent a VI in the CLOs, which are considered to be VIEs.

The Company determined that it was the primary beneficiary of, and thus, would consolidate one of these CLOs as it has both the power to direct the activities that most significantly impact the entity s economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. In addition to fees received as collateral manager, including eligibility for performance incentive fees, and owning certain preference shares, the Company s multi-seller conduit, Three Pillars, owns a senior interest in the CLO, resulting in economics that could potentially be significant to the VIE. On January 1, 2010, the Company consolidated $307 million in total assets and $279 million in net liabilities of the CLO entity. The Company elected to consolidate the CLO at fair value and to carry the financial assets and financial liabilities of the CLO at fair value subsequent to adoption. The initial consolidation of the CLO had a negligible impact on the Company s Consolidated Statements of Shareholders Equity. Substantially all of the assets and liabilities of the CLO are loans and issued debt, respectively. The loans are classified within LHFS at fair value and the debt is included within long-term debt at fair value on the Company s Consolidated Balance Sheets (see Note 12, Fair Value Election and Measurement, to the Consolidated Financial Statements for a discussion of the Company s methodologies for estimating the fair values of these financial instruments). At March 31, 2011, the Company s Consolidated Balance Sheets reflected $324 million of loans held by the CLO and $289 million of debt issued by the CLO. The Company is not obligated, contractually or otherwise, to provide financial support to this VIE nor has it previously provided support to this VIE. Further, creditors of the VIE have no recourse to the general credit of the Company, as the liabilities of the CLO are paid only to the extent of available cash flows from the CLO s assets.

For the remaining CLOs, which are also considered to be VIEs, the Company has determined that it is not the primary beneficiary as it does not have an obligation to absorb losses or the right to receive benefits from the entities that could potentially be significant to the VIE. At March 31, 2010, the carrying value of the Company s investment in the preference shares was zero due to the significant deterioration in the performance of the collateral in those vehicles; however, during the remainder of 2010, the Company observed an improvement in cash flow expectations as well as an overall steady recovery in liquidity and value in the broader CLO market. As a result, the Company was able to liquidate a number of its positions in these CLO preference shares during 2010. Its remaining preference share exposure was valued at $2 million as of March 31, 2011 and December 31, 2010. Upon liquidation of the preference shares, the Company s only remaining involvement with these VIEs was through its collateral manager role. The Company receives fees for managing the assets of these vehicles; these fees are considered adequate compensation and are commensurate with the level of effort required to provide such services. The fees received by the Company from these entities totaled approximately $3 million for the three months ended March 31, 2011 and 2010. The fees received by the Company from these entities are recorded as trust and investment management income in the Consolidated Statements of Income/(Loss). Senior fees earned by the Company are generally not considered at risk; however, subordinate fees earned by the Company are subject to the availability of cash flows and to the priority of payments. The estimated assets and liabilities of these entities that were not included on the Company s Consolidated Balance Sheets were both $2.0 billion at March 31, 2011, and $2.1 billion and $2.0 billion, respectively, at December 31, 2010. The Company is not obligated to provide any support to these entities, nor has it previously provided support to these entities. No events occurred during the three months ended March 31, 2011 that would change the Company s previous conclusion that it is not the primary beneficiary of any of these securitization entities.

Student Loans

In 2006, the Company completed a securitization of government-guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the related residual interest in the SPE. The Company, as master servicer of the loans in the SPE, has agreed to service each loan consistent with the guidelines determined by the applicable government agencies in order to maintain the government guarantee. The Company and the SPE have entered into an agreement to have the loans subserviced by an unrelated third party.

During the year ended December 31, 2010, the Company determined that this securitization of government-guaranteed student loans (the Student Loan entity) should be consolidated. Accordingly, the Company consolidated the Student Loan entity at its unpaid principal amount as of September 30, 2010, resulting in incremental total assets and total liabilities of $0.5 billion, respectively, and an immaterial impact on shareholders equity. The consolidation of the Student Loan entity had no impact on the Company s earnings or cash flows that results from its involvement with this VIE. The primary balance sheet impacts from consolidating the Student Loan entity were increases in LHFI, the related ALLL, and long-term debt. In addition, the Company s ownership of the residual interest in the SPE, previously classified in trading assets, was eliminated upon consolidation and the

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Notes to Consolidated Financial Statements (Unaudited)-Continued

assets and liabilities of the Student Loan entity are recorded on a cost basis. At March 31, 2011 and December 31, 2010, the Company s Consolidated Balance Sheets reflected $470 million and $479 million, respectively, of assets held by the Student Loan entity and $465 million and $474 million, respectively, of debt issued by the Student Loan entity.

Payments from the assets in the SPE must first be used to settle the obligations of the SPE, with any remaining payments remitted to the Company as the owner of the residual interest. To the extent that losses occur on the SPE s assets, the SPE has recourse to the federal government as the guarantor up to a maximum guarantee amount of 97%. Losses in excess of the government guarantee reduce the amount of available cash payable to the owner of the residual interest. To the extent that losses result from a breach of the master servicer s servicing responsibilities, the SPE has recourse to the Company; the SPE may require the Company to repurchase the loan from the SPE at par value. If the breach was caused by the subservicer, the Company has recourse to seek reimbursement from the subservicer up to the guaranteed amount. The Company s maximum exposure to loss related to the SPE is represented by the potential losses resulting from a breach of servicing responsibilities. To date, all loss claims filed with the guarantor that have been denied due to servicing errors have either been cured or reimbursement has been provided to the Company by the subservicer. The Company is not obligated to provide any noncontractual support to this entity, nor has it to date provided any such support to this entity.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The majority of these transfers occurred between 2002 and 2005 with one transaction completed in 2007. The Company retained equity interests in certain of these entities and also holds certain senior interests that were acquired during 2008 in conjunction with its acquisition of assets from the ARS transactions discussed in Note 14, Contingencies, to the Consolidated Financial Statements. The assumptions and inputs considered by the Company in valuing this retained interest include prepayment speeds, credit losses, and the discount rate. Due to the seniority of the interests in the structure, current estimates of credit losses in the underlying collateral could withstand a 20% adverse change without the securities incurring a loss. In addition, while all the underlying collateral is currently eligible for repayment by the obligor, given the nature of the collateral and the current repricing environment, the Company assumed no prepayment would occur before the final maturity, which is approximately 23 years on a weighted average basis. Therefore, the key assumption in valuing these securities was the assumed discount rate, which was estimated to range from 8% to 10% over LIBOR at March 31, 2011 compared to 14% to 16% over LIBOR at December 31, 2010. This significant change in the discount rate was supported by a return to liquidity in the market for similar interests. At March 31, 2011, and December 31, 2010, a 20% adverse change in the assumed discount rate results in declines of approximately $7 million and $5 million, respectively, in the fair value of these securities.

The Company is not obligated to provide any support to these entities and its maximum exposure to loss at March 31, 2011 and December 31, 2010 was limited to the current senior interests held in trading securities, which had a fair value of $42 million as of March 31, 2011 and $25 million as of December 31, 2010. The total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss was $1.3 billion at both March 31, 2011 and December 31, 2010. The Company determined that it was not the primary beneficiary of any of these VIEs under VIE consolidation guidance, as the Company lacks the power to direct the significant activities of any of the VIEs. No events occurred during the three months ended March 31, 2011 that changed either the Company s sale accounting or the Company s conclusions that it is not the primary beneficiary of these VIEs.

The following tables present certain information related to the Company s asset transfers in which it has continuing economic involvement for the three months ended March 31:

	Three Months Ended March 31, 2011				
(Dollars in millions)	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	$15	$-	$-	$1	$16
Servicing or management fees	1	3	-	-	4

	Three Months Ended March 31, 2010
(Dollars in millions)	Total

	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	
Cash flows on interests held	$14	$1	$3	$1	$19
Servicing or management fees	1	3	-	-	4

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Portfolio balances and delinquency balances based on accruing loans 90 days or more past due and all nonaccrual loans as of March 31, 2011 and December 31, 2010, and net charge-offs related to managed portfolio loans (both those that are owned by the Company and those that have been transferred) for three months ended March 31, 2011 and 2010 are as follows:

	Principal Balance		Past Due		Net Charge-offs For the Three Months Ended March 31	
(Dollars in millions)	**March 31 2011**	December 31 2010	**March 31 2011**	December 31 2010	**2011**	2010
Type of loan:						
Commercial	**$53,232**	$53,488	**$1,884**	$1,904	**$156**	$169
Residential	**45,549**	46,521	**3,074**	3,122	**380**	603
Consumer	**16,151**	15,966	**671**	649	**35**	49
Total loan portfolio	**114,932**	115,975	**5,629**	5,675	**571**	821
Managed securitized loans						
Commercial	**2,032**	2,244	**54**	44	**-**	-
Residential	**1,179**	1,245	**95**	96	**13**	11
Total managed loans	**$118,143**	$119,464	**$5,778**	$5,815	**$584**	$832

Residential mortgage loans securitized through Ginnie Mae, Fannie Mae, and Freddie Mac have been excluded from the tables above since the Company does not retain any beneficial interests or other continuing involvement in the loans other than servicing responsibilities on behalf of Ginnie Mae, Fannie Mae, and Freddie Mac and repurchase contingencies under standard representations and warranties made with respect to the transferred mortgage loans. The total amount of loans serviced by the Company as a result of such securitization transactions totaled $120.3 billion and $119.2 billion at March 31, 2011 and December 31, 2010, respectively. Related servicing fees received by the Company during the three months ended March 31, 2011 and 2010 were $86 million and $92 million, respectively.

Mortgage Servicing Rights

In addition to other interests that continue to be held by the Company in the form of securities, the Company also retains MSRs from certain of its sales or securitizations of residential mortgage loans. MSRs on residential mortgage loans are the only servicing assets capitalized by the Company.

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three months ended March 31, 2011 and 2010, was $92 million, and $99 million, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income/(Loss).

As of March 31, 2011 and December 31, 2010, the total unpaid principal balance of mortgage loans serviced was $164.5 billion and $167.2 billion, respectively. Included in these amounts were $132.7 billion and $134.1 billion as of March 31, 2011 and December 31, 2010, respectively, of loans serviced for third parties. During the three months ended March 31, 2011, the Company sold MSRs on residential loans with an unpaid principal balance of $1.7 billion. Because MSRs are reported at fair value, the sale did not have a material impact on mortgage servicing related income.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company s MSRs as of March 31, 2011 and December 31, 2010, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are as follows:

(Dollars in millions)	**March 31, 2011**	December 31, 2010

Fair value of retained MSRs	**$1,538**	$1,439
Prepayment rate assumption (annual)	**10%**	12%
Decline in fair value from 10% adverse change	**$60**	$50
Decline in fair value from 20% adverse change	**102**	95
Discount rate (annual)	**12%**	12%
Decline in fair value from 10% adverse change	**$75**	$68
Decline in fair value from 20% adverse change	**143**	130
Weighted-average life (in years)	**6.8**	6.2
Weighted-average coupon	**5.3%**	5.4%

Notes to Consolidated Financial Statements (Unaudited)-Continued

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. In addition, the sensitivities above do not include the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSRs. See Note 11, Derivative Financial Instruments, for further information regarding these hedging transactions.

Other Variable Interest Entities

In addition to the Company s involvement with certain VIEs, which is discussed herein under Certain Transfers of Financial Assets and related Variable Interest Entities, the Company also has involvement with VIEs from other business activities.

Three Pillars Funding, LLC

SunTrust assists in providing liquidity to select corporate clients by directing them to a multi-seller CP conduit, Three Pillars. Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust s corporate clients by issuing CP.

The Company has determined that Three Pillars is a VIE as Three Pillars has not issued sufficient equity at risk. Previously, Three Pillars had issued a subordinated note to a third party, which would have absorbed the first dollar of loss in the event of nonpayment of any of Three Pillars assets. In January 2010, Three Pillars repaid and extinguished the subordinated note in full. In accordance with the VIE consolidation guidance, the Company has determined that it is the primary beneficiary of Three Pillars, as certain subsidiaries have both the power to direct the significant activities of Three Pillars and own potentially significant VIs, as discussed further herein. The assets and liabilities of Three Pillars were consolidated by the Company at their unpaid principal amounts at January 1, 2010; upon consolidation, the Company recorded an allowance for loan losses on $1.7 billion of secured loans that were consolidated at that time, resulting in a transition adjustment of less than $1 million, which is recorded in the Company s Consolidated Statements of Shareholders Equity.

The Company s involvement with Three Pillars includes the following activities: services related to the administration of Three Pillars activities and client referrals to Three Pillars; the issuing of letters of credit, which provide partial credit protection to the CP holders; and providing liquidity arrangements that would provide funding to Three Pillars in the event it can no longer issue CP or in certain other circumstances. The Company s activities with Three Pillars generated total revenue for the Company, net of direct salary and administrative costs, of $16 million and $15 million for the three months ended March 31, 2011 and 2010, respectively.

At March 31, 2011 and December 31, 2010, the Company s Consolidated Balance Sheets reflected approximately $2.3 billion and $2.4 billion, respectively, of secured loans held by Three Pillars, which are included within commercial loans, and $163 million and $99 million, respectively, of CP issued by Three Pillars, excluding intercompany liabilities, which is included within other short-term borrowings; other assets and liabilities were de minimis to the Company s Consolidated Balance Sheets. No losses on any of Three Pillars assets were incurred during the three months ended March 31, 2011 and 2010.

Funding commitments extended by Three Pillars to its customers, which typically carry initial terms of one to three years and may be repaid or refinanced at any time, totaled $3.8 billion and $4.1 billion at March 31, 2011 and December 31, 2010, respectively. The majority of the commitments are backed by trade receivables and equipment loans/leases that have been originated by companies operating across a number of industries. Trade receivables and equipment loans/leases collateralize 42% and 16%, respectively, of the outstanding commitments, as of March 31, 2011, compared to 48% and 14%, respectively, as of December 31, 2010. Total assets supporting outstanding commitments have a weighted average life of 2.4 years and 2.3 years at March 31, 2011 and December 31, 2010, respectively.

Each transaction added to Three Pillars is typically structured to a minimum implied A/A2 rating according to established credit and underwriting policies as approved by credit risk management and monitored on a regular basis to ensure compliance with each transaction s terms and conditions. Typically, transactions contain dynamic credit enhancement features that provide increased credit protection in the event asset performance deteriorates. If asset performance deteriorates beyond predetermined covenant levels, the transaction could become ineligible for continued funding by Three Pillars. This could result in the transaction being amended with the approval of credit risk management, or Three Pillars could terminate the transaction and enforce any rights or remedies available, including amortization of the transaction or liquidation of the collateral. In addition,

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Three Pillars has the option to fund under the liquidity facility provided by the Bank in connection with the transaction and may be required to fund under the liquidity facility if the transaction remains in breach. In addition, each commitment renewal requires credit risk management approval. The Company is not aware of unfavorable trends related to Three Pillars assets for which the Company expects to suffer material losses.

At March 31, 2011, Three Pillars outstanding CP used to fund its assets had remaining weighted average lives of 11 days and maturities through May 2, 2011. The assets of Three Pillars generally provide the sources of cash flows for the CP. However, the Company has issued commitments in the form of liquidity facilities and other credit enhancements to support the operations of Three Pillars. Due to the Company s consolidation of Three Pillars as of January 1, 2010, these commitments are eliminated in consolidation for U.S. GAAP purposes. The liquidity commitments are revolving facilities that are sized based on the current commitments provided by Three Pillars to its customers. The liquidity facilities may generally be used if new CP cannot be issued by Three Pillars to repay maturing CP. However, the liquidity facilities are available in all circumstances, except certain bankruptcy-related events with respect to Three Pillars. Draws on the facilities are subject to the purchase price (or borrowing base) formula that, in many cases, excludes defaulted assets to the extent that they exceed available over-collateralization in the form of non-defaulted assets, and may also provide the liquidity banks with loss protection equal to a portion of the loss protection provided for in the related securitization agreement. Additionally, there are transaction specific covenants and triggers that are tied to the performance of the assets of the relevant seller/servicer that may result in a transaction termination event, which, if continuing, would require funding through the related liquidity facility. Finally, in a termination event of Three Pillars, such as if its tangible net worth falls below $5,000 for a period in excess of 15 days, Three Pillars would be unable to issue CP, which would likely result in funding through the liquidity facilities. Draws under the credit enhancement are also available in all circumstances, but are generally used to the extent required to make payment on any maturing CP if there are insufficient funds from collections of receivables or the use of liquidity facilities. The required amount of credit enhancement at Three Pillars will vary from time to time as new receivable pools are purchased or removed from its asset portfolio, but is generally equal to 10% of the aggregate commitments of Three Pillars.

Due to the consolidation of Three Pillars, the Company s maximum exposure to potential loss was $3.9 billion and $4.2 billion as of March 31, 2011 and December 31, 2010, respectively, which represents the Company s exposure to the lines of credit that Three Pillars had extended to its clients. The Company did not recognize any liability on its Consolidated Balance Sheets related to the liquidity facilities and other credit enhancements provided to Three Pillars as of March 31, 2011 or December 31, 2010, as no amounts had been drawn, nor were any draws probable to occur, such that a loss should have been accrued.

Total Return Swaps

The Company has had involvement with various VIEs related to its TRS business, which recommenced during 2010 and is ongoing.

Under the matched book TRS business model, the VIEs purchase assets (typically loans) from the market, which are identified by third party clients, that serve as the underlying reference assets for a TRS between the VIE and the Company and a mirror TRS between the Company and its third party clients. The TRS contracts between the VIEs and the Company hedge the Company s exposure to the TRS contracts with its third party clients. These third parties are not related parties to the Company, nor are they and the Company de facto agents of each other. In order for the VIEs to purchase the reference assets, the Company provides senior financing, in the form of demand notes, to these VIEs. The TRS contracts pass through interest and other cash flows on the assets owned by the VIEs to the third parties, along with exposing the third parties to depreciation on the assets and providing them with the rights to appreciation on the assets. The terms of the TRS contracts require the third parties to post initial collateral, in addition to ongoing margin as the fair values of the underlying assets change. Although the Company has always caused the VIEs to purchase a reference asset in response to the addition of a reference asset by its third party clients, there is no legal obligation between the Company and its third party clients for the Company to purchase the reference assets or for the Company to cause the VIEs to purchase the assets.

The Company considered the VIE consolidation guidance, which requires an evaluation of the substantive contractual and non-contractual aspects of transactions involving VIEs established subsequent to January 1, 2010. The Company and its third party clients are the only VI holders. As such, the Company evaluated the nature of all VIs and other interests and involvement with the VIEs, in addition to the purpose and design of the VIEs, relative to the risks they were designed to create. The purpose and design of a VIE are key components of a consolidation analysis and any power should be analyzed based on the substance of that power relative to the purpose and design of the VIE. The VIEs were designed for the benefit of the third parties and would not exist if the Company did not enter into the TRS contracts with the third parties. The activities of the VIEs are restricted to buying and selling reference assets with respect to the TRS contracts entered into between the Company and its third party clients

Notes to Consolidated Financial Statements (Unaudited)-Continued

and the risks/benefits of any such assets owned by the VIEs are passed to the third party clients via the TRS contracts. The TRS contracts between the Company and its third party clients have a substantive effect on the design of the overall transaction and the VIEs. Based on its evaluation, the Company has determined that it is not the primary beneficiary of the VIEs, as the design of the TRS business results in the Company having no substantive power to direct the significant activities of the VIEs.

At March 31, 2011 and December 31, 2010, the Company had $1.0 billion and $972 million, respectively, in senior financing outstanding to VIEs, which were classified within trading assets on the Consolidated Balance Sheets and carried at fair value. These VIEs had entered into TRS contracts with the Company with outstanding notional amounts of $1.0 billion and $969 million at March 31, 2011 and December 31, 2010, respectively, and the Company had entered into mirror TRS contracts with its third parties with the same outstanding notional amounts. At March 31, 2011, the fair values of these TRS assets and liabilities were $38 million and $36 million, respectively, and at December 31, 2010, the fair values of these TRS assets and liabilities were $34 million and $32 million, respectively, reflecting the pass-through nature of these structures. The notional amounts of the TRS contracts with the VIEs represent the Company s maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with the third parties. The Company has not provided any support to the VIE that it was not contractually obligated to for the three months ended March 31, 2011 or during the year ended December 31, 2010. For additional information on the Company s TRS with these VIEs, see Note 11, Derivative Financial Instruments to the Consolidated Financial Statements.

Community Development Investments

As part of its community reinvestment initiatives, the Company invests almost exclusively within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for its partnership investments. The Company has determined that these partnerships are VIEs. During 2011 and 2010, the Company did not provide any financial or other support to its consolidated or unconsolidated investments that it was not previously contractually required to provide.

For partnerships where the Company operates strictly as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. As of March 31, 2011 and December 31, 2010, total assets, which consist primarily of fixed assets and cash attributable to the consolidated partnerships, were $9 million and $8 million, respectively, and total liabilities, excluding intercompany liabilities, were $1 million. Security deposits from the tenants are recorded as liabilities on the Company s Consolidated Balance Sheets. The Company maintains separate cash accounts to fund these liabilities and these assets are considered restricted. The tenant liabilities and corresponding restricted cash assets were de minimis as of March 31, 2011 and December 31, 2010. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During 2011 and 2010, the Company did not provide any significant amount of funding as the general partner or to cover any deficits the partnerships may have generated.

For other partnerships, the Company acts only in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships and accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. The general partner or an affiliate of the general partner provides guarantees to the limited partner, which protects the Company from losses attributable to operating deficits, construction deficits and tax credit allocation deficits. Partnership assets of $1.1 billion in these partnerships were not included in the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010. These limited partner interests had carrying values of $201 million and $202 million at March 31, 2011 and December 31, 2010, respectively, and are recorded in other assets on the Company s Consolidated Balance Sheets. The Company s maximum exposure to loss for these limited partner investments totaled $462 million and $458 million at March 31, 2011 and December 31, 2010, respectively. The Company s maximum exposure to loss would be borne by the loss of the limited partnership equity investments along with $228 million and $222 million of loans issued by the Company to the limited partnerships at March 31, 2011 and December 31, 2010, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the partnerships upon the partnerships meeting certain conditions. When these conditions are met, the Company will invest these additional amounts in the partnerships.

When the Company owns both the limited partner and general partner interests or acts as the indemnifying party, the Company consolidates the partnerships and does not consider these partnerships VIEs. As of March 31, 2011 and December 31, 2010, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated, non-VIE partnerships were $387 million and $394 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were $111 million and $123 million, respectively.

See Note 12, Fair Value Election and Measurement, to the Consolidated

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Financial Statements for further discussion on the impact of impairment charges on affordable housing partnership investments.

Registered and Unregistered Funds Advised by RidgeWorth

RidgeWorth, a registered investment advisor and majority owned subsidiary of the Company, serves as the investment advisor for various private placement, common and collective funds, and registered mutual funds (collectively the Funds). The Company evaluates these Funds to determine if the Funds are VIEs. In February 2010, the FASB issued guidance that defers the application of the existing VIE consolidation guidance for investment funds meeting certain criteria. All of the registered and unregistered Funds advised by RidgeWorth meet the scope exception criteria and thus are not evaluated for consolidation under the guidance. Accordingly, the Company continues to apply the consolidation guidance in effect prior to the issuance of the existing guidance to interests in funds that qualify for the deferral. Further, funds that were determined to be VIEs under the previous accounting guidance and are still considered VIEs under the current accounting guidance are required to comply with the current disclosure requirements.

The Company has concluded that some of the Funds are VIEs. However, the Company has concluded that it is not the primary beneficiary of these funds as the Company does not absorb a majority of the expected losses nor expected returns of the funds. The Company s exposure to loss is limited to the investment advisor and other administrative fees it earns and if applicable, any equity investments. The total unconsolidated assets of these funds as of March 31, 2011 and December 31, 2010 were $1.6 billion and $1.9 billion, respectively.

The Company does not have any contractual obligation to provide monetary support to any of the Funds. The Company did not provide any significant support, contractual or otherwise, to the Funds during the three months ended March 31, 2011 or during the year ended December 31, 2010.

Note 7 Net Income/(Loss) Per Share

Equivalent shares of 32 million related to common stock options and common stock warrants outstanding as of March 31, 2011 and 2010 were excluded from the computations of diluted income/(loss) per average common share because they would have been anti-dilutive. Further, for EPS calculation purposes, during the three months ended March 31, 2010, the impact of dilutive securities were excluded from the diluted share count because the Company recognized a net loss available to common shareholders and the impact would have been anti-dilutive.

A reconciliation of the difference between average basic common shares outstanding and average diluted common shares outstanding for the three months ended March 31, 2011 and 2010 is included below. Additionally, included below is a reconciliation of net income/(loss) to net income/(loss) available to common shareholders.

	Three Months Ended March 31	
(In millions, except per share data)	**2011**	2010
Net income/(loss)	**$180**	($161)
Series A preferred dividends	**(2)**	(2)
U.S. Treasury preferred dividends and accretion of discount	**(66)**	(66)
Accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**(74)**	-
Net income/(loss) available to common shareholders	**$38**	($229)
Average basic common shares	**500**	495
Effect of dilutive securities:		
Stock options	**1**	1
Restricted stock	**3**	2
Average diluted common shares	**504**	498

Net income/(loss) per average common share - diluted	**$0.08**	($0.46)
Net income/(loss) per average common share - basic	**$0.08**	($0.46)

Note 8 Long-Term Debt and Capital

In March 2011, the Federal Reserve completed its review of the Company s capital plan in connection with the CCAR. Upon completion of the review, the Federal Reserve did not object to the Company s capital plan as originally submitted in December 2010. As a result, the Company completed, during the three months ended March 31, 2011, a $1.0 billion common stock offering and a $1.0 billion senior debt offering. The Company subsequently used the proceeds from these offerings as

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well as from other available funds to repurchase, on March 30, 2011, $3.5 billion of Fixed Rate Cumulative Preferred Stock, Series C, and $1.4 billion of Fixed Rate Cumulative Preferred Stock, Series D that was issued to the U.S. Treasury under the TARP s CPP. As a result of the repurchase of Series C and D preferred stock, the Company incurred a one-time non-cash charge to net income/(loss) available to common shareholders of $74 million during the three months ended March 31, 2011, related to accelerating the outstanding discount accretion on the Series C and D preferred stock. The U.S. Treasury continues to hold warrants to purchase 11,891,280 shares of SunTrust common stock at an exercise price of $44.15 per share and 6,008,902 shares of SunTrust common stock at an exercise price of $33.70 per share.

Primarily as a result of the senior debt offering, the Company s long term debt increased from $13.6 billion at December 31, 2010 to $14.7 billion at March 31, 2011. The $1.0 billion senior notes were issued at 3.60% and are due in 2016. In addition to the senior debt offering during the first quarter of 2011, the Company also repurchased $120 million of its fixed rate senior and junior subordinated notes that were due in 2011 and 2036.

As a result of the common stock offering, the Company s common equity increased by $1.0 billion, net of issuance costs, and approximately 35 million new common shares were added to the Company s outstanding common shares. Conversely, Consolidated Shareholders Equity decreased by $3.9 billion from December 31, 2010 primarily as a result of the repurchase of the Series C and D preferred stock, offset by the new common share issuance. The Company s capital ratios as of March 31, 2011 and December 31, 2010 are noted below.

	As of March 31, 2011		As of December 31, 2010	
(Dollars in millions)	**Amount**	**Ratio**	Amount	Ratio
SunTrust Banks, Inc.				
Tier 1 common	**$11,811**	**9.05%**	$10,737	8.08%
Tier 1 capital	**14,363**	**11.00**	18,156	13.67
Total capital	**18,178**	**13.92**	21,967	16.54
Tier 1 leverage		**8.72**		10.94
SunTrust Bank				
Tier 1 capital	**$13,477**	**10.48%**	$13,120	10.05%
Total capital	**16,782**	**13.05**	16,424	12.58
Tier 1 leverage		**8.50**		8.33

Note 9 - Income Taxes

The provision for income taxes was $33 million and a benefit of $194 million for the three months ended March 31, 2011 and 2010, respectively, representing effective tax rates of 15.5% and (54.7%), respectively, during those periods. The Company calculated income taxes for the three months ended March 31, 2011 and 2010 based on actual year-to-date results.

As of March 31, 2011, the Company s gross cumulative income tax on UTBs amounted to $99 million, of which $67 million (net of federal tax benefit) would affect the Company s effective tax rate, if recognized. As of December 31, 2010, the Company s gross cumulative income tax on UTBs amounted to $102 million. Additionally, the Company had a gross liability of $21 million for interest related to its UTBs as of March 31, 2011 and December 31, 2010. Interest recognized related to UTBs was expense of less than $1 million and income of approximately $5 million for the three months ended March 31, 2011 and 2010, respectively. The Company continually evaluates the UTBs associated with its uncertain tax positions. It is reasonably possible that the total amount of income tax on UTBs could decrease during the next 12 months by up to $10 million due to completion of tax authority examinations and the expiration of statutes of limitations.

The Company files consolidated and separate income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. As of March 31, 2011, the Company s federal returns through 2006 have been examined by the IRS and all issues have been resolved. The Company s 2007 through 2009 federal income tax returns are currently under examination by the IRS. Generally, the state jurisdictions in which the Company files income tax returns are subject to examination for a period from three to seven years after returns are filed.

Note 10 - Employee Benefit Plans

The Company sponsors various short-term incentive and LTI plans for eligible employees. The Company delivers LTIs through various incentive programs, including stock options, restricted stock, LTI cash, and salary shares. Compensation expense related to LTI cash for the three months ended March 31, 2011 and 2010 was $9 million and $6 million, respectively.

TARP prohibited the payment of any bonus, incentive compensation or stock option award to our five NEOs and other highly compensated executives. As a result, SunTrust continued the use of salary shares in 2011 as defined in the U.S. Treasury s

Notes to Consolidated Financial Statements (Unaudited)-Continued

Interim Final Rule on TARP Standards for Compensation and Corporate Governance. Specifically, the Company paid additional base salary amounts in the form of stock (salary shares) to the senior executive officers and other employees who were among the next 20 most highly-compensated employees. The Company did this each pay period in the form of stock units under the SunTrust Banks, Inc. 2009 Stock Plan. The stock units did not include any rights to receive dividends or dividend equivalents. As required by The Emergency Economic Stabilization Act of 2008, each salary share was non-forfeitable upon grant but may not be sold or transferred until the expiration of a holding period (except as necessary to satisfy applicable withholding taxes). As a result, these individuals are at risk for the value of our stock price until the stock unit is settled. The stock units are settled in cash; for the 2010 salary shares one half was settled on March 31, 2011 and one half will be settled on March 31, 2012, unless settled earlier due to the executive s death. The 2011 salary shares were settled on the date of TARP repayment on March 30, 2011. The amount to be paid on settlement of the stock units will be equal to the value of a share of SunTrust common stock on the settlement date. Benefit plan determinations and limits were established to ensure that the salary shares were accounted for equitably within relevant benefit plans. As of March 31, 2011, the accrual related to salary shares was $5 million.

Following the repayment by SunTrust of the U.S. Treasury s TARP investment in the Company, the Compensation Committee of the Board (the Committee) approved a revised compensation structure for the Company s NEOs. Effective April 1, 2011, the compensation structure includes an annual incentive opportunity under the Company s existing Management Incentive Plan. New LTI arrangements were also implemented. The design of the plan delivers 50% restricted stock units with vesting tied to the Company s total shareholder return relative to a peer group consisting of the banks which comprise the KBW Bank Sector Index. The remaining 50% of the LTI will consist of approximately half restricted stock units, the vesting of which is tied to the achievement of a Tier 1 capital ratio target, and the other half in stock options.

Stock-Based Compensation

The Company granted 404,745 shares of stock options and 1,243,138 shares of restricted stock during the first three months of 2011. The weighted average prices of these grants were $32.27 and $32.18, respectively. The fair value of options granted during the first three months of 2011 and 2010 were $12.20 per share and $12.75 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended March 31	
	2011	2010
Dividend yield	**0.12%**	0.17%
Expected stock price volatility	**34.54**	56.23
Risk-free interest rate (weighted average)	**2.72**	2.84
Expected life of options	**6 years**	6 years

Stock-based compensation expense recognized in noninterest expense was as follows:

	Three Months Ended March 31	
(Dollars in millions)	**2011**	2010
Stock-based compensation expense:		
Stock options	**$3**	$4
Restricted stock	**9**	12
Total stock-based compensation expense	**$12**	$16

The recognized stock-based compensation tax benefit amounted to $5 million and $6 million for the three months ended March 31, 2011 and 2010, respectively.

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans (Retirement Benefits plans) in the first quarter of 2011. The expected long-term rate of return on plan assets for the Retirement Benefit Plans is 7.75% for 2011.

Anticipated employer contributions/benefit payments for 2011 are $22 million for the Supplemental Retirement Benefit plans. For the first quarter of 2011, the actual contributions/benefit payments totaled $1 million.

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SunTrust contributed less than $1 million to the Postretirement Welfare Plan in the first quarter of 2011. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2011 in the amount of $3 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare plan is 6.75% for 2011.

	Three Months Ended March 31			
	2011		2010	
(Dollars in millions)	Retirement Benefits	Other Postretirement Benefits	Retirement Benefits	Other Postretirement Benefits
Service cost	**$18**	**$-**	$17	$-
Interest cost	**32**	**3**	32	3
Expected return on plan assets	**(47)**	**(2)**	(45)	(2)
Amortization of prior service cost	**(5)**	**-**	(3)	-
Recognized net actuarial loss	**10**	**-**	15	-
Net periodic benefit cost	**$8**	**$1**	$16	$1

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Note 11 - Derivative Financial Instruments

The Company enters into various derivative financial instruments, both in a dealer capacity to facilitate client transactions and as an end user as a risk management tool. Where derivatives have been entered into with clients, the Company generally manages the risk associated with these derivatives within the framework of its VAR approach that monitors total exposure daily and seeks to manage the exposure on an overall basis. Derivatives are used as a risk management tool to hedge the Company s exposure to changes in interest rates or other identified market or credit risks, either economically or in accordance with the hedge accounting provisions. The Company may also enter into derivatives, on a limited basis, in consideration of trading opportunities in the market. In addition, as a normal part of its operations, the Company enters into IRLCs on mortgage loans that are accounted for as freestanding derivatives and has certain contracts containing embedded derivatives that are carried, in their entirety, at fair value. All freestanding derivatives and any embedded derivatives that the Company bifurcates from the host contracts are carried at fair value in the Consolidated Balance Sheets in trading assets, other assets, trading liabilities, or other liabilities. The associated gains and losses are either recorded in OCI, net of tax, or within the Consolidated Statements of Income/(Loss) depending upon the use and designation of the derivatives.

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. If the counterparty fails to perform, the credit risk at that time would be equal to the net derivative asset position, if any, for that counterparty. The Company minimizes the credit or repayment risk in derivatives by entering into transactions with high credit-quality counterparties that are reviewed periodically by the Company s Credit Risk Management division. The Company s derivatives may also be governed by an ISDA, depending on the nature of the derivative transactions, bilateral collateral agreements may be in place as well. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legally enforceable master netting agreement with that counterparty, the Company considers its exposure to the counterparty to be the net market value of all positions with that counterparty, if such net value is an asset to the Company, and zero, if such net value is a liability to the Company. As of March 31, 2011, net derivative asset positions to which the Company was exposed to risk of its counterparties were $1.5 billion, representing the net of $2.7 billion in net derivative gains by counterparty, netted by counterparty where formal netting arrangements exist, adjusted for collateral of $1.2 billion that the Company holds in relation to these gain positions. As of December 31, 2010, net derivative asset positions to which the Company was exposed to risk of its counterparties were $1.6 billion, representing the net of $2.8 billion in net derivative gains by counterparty, netted by counterparty where formal netting arrangements exist, adjusted for collateral of $1.2 billion that the Company holds in relation to these gain positions.

Derivative instruments are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each counterparty is estimated using the Company s proprietary internal risk rating system. The risk rating system utilizes counterparty-specific probabilities of default and loss given default estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. In addition, counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of marketable collateral securing the position. Specifically approved counterparties and exposure limits are defined. The approved counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach used to estimate exposures to counterparties is also used by the Company to estimate its own credit risk on derivative liability positions. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately $31 million and $33 million as of March 31, 2011 and December 31, 2010 respectively.

The majority of the Company s derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies contained in industry standard master trading agreements may be considered events of default. Should the Bank be in default under any of these provisions, the Bank s counterparties would be permitted under such master agreements to close-out net at amounts that would approximate the then-fair values of the derivatives and the netting of the amounts would produce a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. In addition, certain of the Company s derivative liability positions, totaling $949 million and $1.1 billion in fair value at March 31, 2011 and December 31, 2010, respectively, contain provisions conditioned on downgrades of the Bank s credit rating.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral. Collateral posting requirements generally result from differences in the fair value of the net derivative liability compared to specified collateral thresholds at different ratings levels of the Bank, both of which are negotiated provisions within each CSA. At March 31, 2011, the Bank carried senior long-term debt ratings of A3/BBB+ from three of the major ratings agencies. At the current rating level, ATEs have been triggered for approximately $3 million in fair value liabilities as of March 31, 2011. For illustrative purposes, if the Bank were further downgraded to Baa3/BBB-, ATEs would be triggered in derivative liability contracts that had a total fair value of $11 million at March 31, 2011, against which the Bank had posted collateral of $6 million; ATEs do not exist at lower ratings levels. At March 31, 2011, $945 million in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $882 million in collateral. If requested by the counterparty per the terms of the CSA, the Bank would be required to post estimated additional collateral against these contracts at March 31, 2011 of $24 million if the Bank were downgraded to Baa3/BBB-, and any further downgrades to Ba1/BB+ or below would require the posting of an additional $14 million at March 31, 2011. Such collateral posting amounts may be more or less than the Bank s estimates based on the specified terms of each CSA as to the timing of a collateral calculation and whether the Bank and its counterparties differ on their estimates of the fair values of the derivatives or collateral.

Derivatives also expose the Company to market risk. Market risk is the adverse effect that a change in market factors, such as interest rates, currency rates, equity prices, or implied volatility, has on the value of a derivative. The Company manages the market risk associated with its derivatives by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company continually measures this risk by using a VAR methodology.

The tables below present the Company s derivative positions at March 31, 2011 and December 31, 2010. The notional amounts in the tables are presented on a gross basis and have been classified within Asset Derivatives or Liability Derivatives based on the estimated fair value of the individual contract at March 31, 2011 and December 31, 2010. For purposes of the table below, the gross positive and gross negative fair value amounts associated with the respective notional amounts are presented without consideration of any netting agreements. For contracts constituting a combination of options that contain a written option and a purchased option (such as a collar), the notional amount of each option is presented separately, with the purchased notional amount generally being presented as an Asset Derivative and the written notional amount being presented as a Liability Derivative. The fair value of a combination of options is generally presented as a single value with the purchased notional amount if the combined fair value is positive, and with the written notional amount, if the combined fair value is negative.

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	As of March 31, 2011					
	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships [5]						
Equity contracts hedging:						
Securities AFS	Trading assets	$1,547	$-	Trading liabilities	$1,547	$161
Interest rate contracts hedging:						
Floating rate loans	Trading assets	13,400	858	Trading liabilities	950	20
Total		14,947	858		2,497	181
Derivatives not designated as hedging instruments [6]						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	1,274	43	Trading liabilities	60	4
MSRs	Other assets	24,335	117	Other liabilities	4,075	25
LHFS, IRLCs, LHFI-FV	Other assets	2,661 [3]	7	Other liabilities	2,144	9
Trading activity	Trading assets	140,528 [1]	3,743	Trading liabilities	110,135	3,433
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans	Trading assets	1,151	82	Trading liabilities	511	114
Trading activity	Trading assets	5,898	197	Trading liabilities	5,953	189
Credit contracts covering:						
Loans	Trading assets	30	-	Trading liabilities	207	3
Trading activity	Trading assets	1,131 [2]	42	Trading liabilities	1,108 [2]	38
Equity contracts - Trading activity	Trading assets	5,775 [1]	669	Trading liabilities	9,007	827
Other contracts:						
IRLCs and other	Other assets	2,205	24	Other liabilities	625 [4]	26 [4]
Trading activity	Trading assets	194	33	Trading liabilities	195	33
Total		185,182	4,957		134,020	4,701
Total derivatives		$200,129	$5,815		$136,517	$4,882

[1] Amounts include $24.7 billion and $0.6 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

[2] Asset and liability amounts include $1 million and $10 million, respectively, of notional from purchased and written interest rate swap risk participation agreements, respectively, which notional is calculated as the notional of the interest rate swap participated adjusted by the relevant risk weighted assets conversion factor.

[3] Amount includes $0.4 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

[4] Includes a $23 million derivative liability recorded in other liabilities in the Consolidated Balance Sheets, related to a notional amount of $134 million. The notional amount is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Visa Class B common stock to Visa Class A common stock, and the Visa Class A common stock price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Visa Class B shares in the second quarter of 2009 as discussed in Note 18, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements in the Company s 2010 Annual Report on Form 10-K.

[5] See Cash Flow Hedges in this Note for further discussion.

[6] See Economic Hedging and Trading Activities in this Note for further discussion.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

The table below presents the Company s derivative positions at December 31, 2010.

	As of December 31, 2010					
	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships [5]						
Equity contracts hedging:						
Securities AFS	Trading assets	$1,547	$-	Trading liabilities	$1,547	$145
Interest rate contracts hedging:						
Floating rate loans	Trading assets	15,350	947	Trading liabilities	500	10
Total		16,897	947		2,047	155
Derivatives not designated as hedging instruments [6]						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	1,273	41	Trading liabilities	60	4
Corporate bonds and loans		-	-	Trading liabilities	5	-
MSRs	Other assets	20,474	152	Other liabilities	6,480	73
LHFS, IRLCs, LHFI-FV	Other assets	7,269 [3]	92	Other liabilities	2,383	20
Trading activity	Trading assets	132,286 [1]	4,211	Trading liabilities	105,926	3,884
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans	Trading assets	1,083	17	Trading liabilities	495	128
Trading activity	Trading assets	2,691	92	Trading liabilities	2,818	91
Credit contracts covering:						
Loans	Trading assets	15	-	Trading liabilities	227	2
Trading activity	Trading assets	1,094 [2]	39	Trading liabilities	1,039 [2]	34
Equity contracts - Trading activity	Trading assets	5,010 [1]	583	Trading liabilities	8,012	730
Other contracts:						
IRLCs and other	Other assets	2,169	18	Other liabilities	2,196 [4]	42 [4]
Trading activity	Trading assets	111	11	Trading liabilities	111	11
Total		173,475	5,256		129,752	5,019
Total derivatives		$190,372	$6,203		$131,799	$5,174

[1] Amounts include $25.0 billion and $0.5 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

[2] Asset and liability amounts include $1 million and $8 million, respectively, of notional from purchased and written interest rate swap risk participation agreements, respectively, which notional is calculated as the notional of the interest rate swap participated adjusted by the relevant risk weighted assets conversion factor.

[3] Amount includes $1.4 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily and therefore no derivative asset or liability is recorded.

[4] Includes a $23 million derivative liability recorded in other liabilities in the Consolidated Balance Sheets, related to a notional amount of $134 million. The notional amount is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Visa Class B common stock to Visa Class A common stock, and the Visa Class A common stock price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Visa Class B shares in

the second quarter of 2009 as discussed in Note 18, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements in the Company s 2010 Annual Report on Form 10-K.

[5] See Cash Flow Hedges in this Note for further discussion.

[6] See Economic Hedging and Trading Activities in this Note for further discussion.

The impacts of derivative financial instruments on the Consolidated Statements of Income/(Loss) and the Consolidated Statements of Shareholders Equity for the three months ended March 31, 2011 and 2010 are presented below. The impacts are segregated between those derivatives that are designated in hedging relationships and those that are used for economic hedging or trading purposes, with further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge, for both economic hedges and those instruments designated in formal, qualifying hedging relationships.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions) **Derivatives in cash flow hedging relationships**	**Three Months Ended March 31, 2011** **Amount of pre-tax loss recognized in OCI on Derivatives (Effective Portion)**	**Classification of gain reclassified from AOCI into Income (Effective Portion)**	**Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) [1]**
Equity contracts hedging:			
Securities AFS	**($16)**		**$-**
Interest rate contracts hedging:			
Floating rate loans	**(27)**	Interest and fees on loans	**113**
Total	**($43)**		**$113**

(Dollars in millions) **Derivatives not designated as hedging instruments**	**Classification of gain/(loss) recognized in Income on Derivatives**	**Amount of gain/(loss) recognized in Income on Derivatives**
Interest rate contracts covering:		
Fixed rate debt	Trading account profits/(losses) and commissions	**$1**
MSRs	Mortgage servicing related income	**(43)**
LHFS, IRLCs, LHFI-FV	Mortgage production related loss	**(26)**
Trading activity	Trading account profits/(losses) and commissions	**4**
Foreign exchange rate contracts covering:		
Foreign-denominated debt and commercial loans	Trading account profits/(losses) and commissions	**81**
Trading activity	Trading account profits/(losses) and commissions	**(1)**
Credit contracts covering:		
Loans	Trading account profits/(losses) and commissions	**(1)**
Other	Trading account profits/(losses) and commissions	**4**
Equity contracts - trading activity	Trading account profits/(losses) and commissions	**3**
Other contracts:		
IRLCs	Mortgage production related loss	**36**
Total		**$58**

[1] During the three months ended March 31, 2011, the Company reclassified $41 million in pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated.

(Dollars in millions) **Derivatives in cash flow hedging relationships**	Three Months Ended March 31, 2010 Amount of pre-tax gain recognized in OCI on Derivatives (Effective Portion)	Classification of gain reclassified from AOCI into Income (Effective Portion)	Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) [1]
Equity contracts hedging:			

Securities AFS	$61		$-
Interest rate contracts hedging:			
Floating rate loans	288	Interest and fees on loans	127
Total	$349		$127

(Dollars in millions)

Derivatives not designated as hedging instruments	Classification of gain/(loss) recognized in Income on Derivatives	Amount of gain/(loss) recognized in Income on Derivatives
Interest rate contracts covering:		
Fixed rate debt	Trading account profits/(losses) and commissions	$46
Corporate bonds and loans	Trading account profits/(losses) and commissions	(1)
MSRs	Mortgage servicing related income	76
LHFS, IRLCs, LHFI-FV	Mortgage production related income	(70)
Trading activity	Trading account profits/(losses) and commissions	30
Foreign exchange rate contracts covering:		
Foreign-denominated debt and commercial loans	Trading account profits/(losses) and commissions	(96)
Trading activity	Trading account profits/(losses) and commissions	7
Equity contracts - trading activity	Trading account profits/(losses) and commissions	7
Other contracts:		
IRLCs	Mortgage production related income	92
Total		$91

[1] During the three months ended March 31, 2010, the Company reclassified $29 million in pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Credit Derivatives

As part of its trading businesses, the Company enters into contracts that are, in form or substance, written guarantees: specifically, CDS, swap participations, and TRS. The Company accounts for these contracts as derivative instruments and, accordingly, records these contracts at fair value, with changes in fair value recorded in trading account profits/(losses) and commissions in the Consolidated Statements of Income/(Loss).

The Company writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either net cash settle or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. As of March 31, 2011, all written CDS contracts reference single name corporate credits or corporate credit indices. When the Company has written CDS, it has generally entered into offsetting CDS for the underlying reference asset, under which the Company paid a premium to its counterparty for protection against an event of default on the reference asset. The counterparties to these purchased CDS are generally of high creditworthiness and typically have ISDA master agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at March 31, 2011, the Company did not have any significant risk of making a non-recoverable payment on any written CDS. During 2011 and 2010, the only instances of default on written CDS were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS. At March 31, 2011, the written CDS had remaining terms ranging from one year to five years. The maximum guarantees outstanding at March 31, 2011 and December 31, 2010, as measured by the gross notional amounts of written CDS, were $77 million and $99 million, respectively. At March 31, 2011 and December 31, 2010, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were $75 million and $87 million, respectively. The fair values of written CDS were $4 million and $3 million at March 31, 2011 and December 31, 2010, respectively, and the fair values of purchased CDS were de minimis at March 31, 2011 and December 31, 2010, respectively.

The Company writes risk participations, which are credit derivatives whereby the Company has guaranteed payment to a dealer counterparty in the event that the counterparty experiences a loss on a derivative instrument, such as an interest rate swap, due to a failure to pay by the counterparty s customer (the obligor) on that derivative instrument. The Company monitors its payment risk on its risk participations by monitoring the creditworthiness of the obligors, which is based on the normal credit review process the Company would have performed had it entered into the derivative instruments directly with the obligors. The obligors are all corporations or partnerships. However, the Company continues to monitor the creditworthiness of its obligors and the likelihood of payment could change at any time due to unforeseen circumstances. To date, no material losses have been incurred related to the Company s written swap participations. At March 31, 2011, the remaining terms on these risk participations generally ranged from two months to seven years, with a weighted average on the maximum estimated exposure of 3.3 years. The Company s maximum estimated exposure to written swap participations, as measured by projecting a maximum value of the guaranteed derivative instruments based on interest rate curve simulations and assuming 100% default by all obligors on the maximum values, was approximately $75 million and $74 million at March 31, 2011 and December 31, 2010, respectively. The fair values of the written swap participations were de minimis at March 31, 2011 and December 31, 2010. As part of its trading activities, the Company may enter into purchased swap participations, but such activity is not matched, as discussed herein related to CDS or TRS.

The Company has also entered into TRS contracts on loans. The Company s TRS business consists of matched trades, such that when the Company pays depreciation on one TRS, it receives the same depreciation on the matched TRS. As such, the Company does not have any long or short exposure, other than credit risk of its counterparty, which is mitigated through collateralization. The Company typically receives initial cash collateral from the counterparty upon entering into the TRS and is entitled to additional collateral as the fair value of the underlying reference assets deteriorate. At March 31, 2011 and December 31, 2010, there were $1.0 billion and $969 million of outstanding and offsetting TRS notional balances, respectively. The fair values of the TRS derivative assets and liabilities at March 31, 2011 were $38 million and $36 million, respectively, and related collateral held at March 31, 2011 was $241 million. The fair values of the TRS derivative assets and liabilities at December 31, 2010 were $34 million and $32 million, respectively, and related collateral held at December 31, 2010 was $268 million.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Cash Flow Hedges

The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company may employ various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management s assessment of future interest rates, as well as, other factors. The Company establishes parameters for derivative usage, including identification of assets and liabilities to hedge, derivative instruments to be utilized, and notional amounts of hedging relationships. At March 31, 2011, the Company s only outstanding interest rate hedging relationships involve interest rate swaps that have been designated as cash flow hedges of probable forecasted transactions related to recognized floating rate loans.

Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. At March 31, 2011, the maximum range of hedge maturities for hedges of floating rate loans is one to five years, with the weighted average being 3.1 years. Ineffectiveness on these hedges was de minimis during the three months ended March 31, 2011 and 2010. As of March 31, 2011, $342 million, net of tax, of the deferred net gains on derivatives that are recorded in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income on these hedged items.

During the third quarter of 2008, the Company executed The Agreements on 30 million common shares of Coke. A consolidated subsidiary of SunTrust owns 22.9 million Coke common shares and a consolidated subsidiary of the Bank owns 7.1 million Coke common shares. These two subsidiaries entered into separate derivative contracts on their respective holdings of Coke common shares with a large, unaffiliated financial institution (the Counterparty). Execution of The Agreements (including the pledges of the Coke common shares pursuant to the terms of The Agreements) did not constitute a sale of the Coke common shares under U.S. GAAP for several reasons, including that ownership of the common shares was not legally transferred to the Counterparty. The Agreements were zero-cost equity collars at inception, which caused the Agreements to be derivatives in their entirety. The Company has designated The Agreements as cash flow hedges of the Company s probable forecasted sales of its Coke common shares, which are expected to occur between 6.5 and 7 years from The Agreements effective date, for overall price volatility below the strike prices on the floor (purchased put) and above the strike prices on the ceiling (written call). Although the Company is not required to deliver its Coke common shares under The Agreements, the Company has asserted that it is probable that it will sell all of its Coke common shares at or around the settlement date of The Agreements. The Federal Reserve s approval for Tier 1 capital treatment was significantly based on this expected disposition of the Coke common shares under The Agreements or in another market transaction. Both the sale and the timing of such sale remain probable to occur as designated. At least quarterly, the Company assesses hedge effectiveness and measures hedge ineffectiveness with the effective portion of the changes in fair value of The Agreements recorded in AOCI and any ineffective portions recorded in trading account profits/(losses) and commissions. None of the components of The Agreements fair values are excluded from the Company s assessments of hedge effectiveness. Potential sources of ineffectiveness include changes in market dividends and certain early termination provisions. During the three months ended March 31, 2011 and 2010, the Company recognized ineffectiveness gains of less than $1 million and approximately $7 million, respectively. Ineffectiveness gains were recorded in trading account profits/(losses) and commissions. Other than potential measured hedge ineffectiveness, no amounts are expected to be reclassified from AOCI over the next twelve months and any remaining amounts recorded in AOCI will be reclassified to earnings when the probable forecasted sales of the Coke common shares occur.

Economic Hedging and Trading Activities

In addition to designated hedging relationships, the Company also enters into derivatives as an end user as a risk management tool to economically hedge risks associated with certain non-derivative and derivative instruments, along with entering into derivatives in a trading capacity with its clients.

The primary risks that the Company economically hedges are interest rate risk, foreign exchange risk, and credit risk. The economic hedging activities are accomplished by entering into individual derivatives or by using derivatives on a macro basis, and generally accomplish the Company s goal of mitigating the targeted risk. To the extent that specific derivatives are associated with specific hedged items, the notional amounts, fair values, and gains/(losses) on the derivatives are illustrated in the tables in this footnote.

The Company utilizes interest rate derivatives to mitigate exposures from various instruments.

o The Company is subject to interest rate risk on its fixed rate debt. As market interest rates move, the fair value of the Company s debt is affected. To protect against this risk on certain debt issuances that the Company has elected to

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carry at fair value, the Company has entered into pay variable-receive fixed interest rate swaps (in addition to entering into certain non-derivative instruments on a macro basis) that decrease in value in a rising rate environment and increase in value in a declining rate environment.

- The Company is exposed to risk on the returns of certain of its brokered deposits that are carried at fair value. To hedge against this risk, the Company has entered into interest rate derivatives that mirror the risk profile of the returns on these instruments.

- The Company is exposed to interest rate risk associated with MSRs, which the Company hedges with a combination of mortgage and interest rate derivatives, including forward and option contracts, futures, and forward rate agreements.

- The Company enters into mortgage and interest rate derivatives, including forward contracts, futures, and option contracts to mitigate interest rate risk associated with IRLCs, mortgage LHFS, and mortgage LHFI reported at fair value.

The Company is exposed to foreign exchange rate risk associated with certain senior notes denominated in euros and pound sterling. This risk is economically hedged with cross currency swaps, which receive either euros or pound sterling and pay U.S. dollars. Interest expense on the Consolidated Statements of Income/(Loss) reflects only the contractual interest rate on the debt based on the average spot exchange rate during the applicable period, while fair value changes on the derivatives and valuation adjustments on the debt are both recorded within trading account profits/(losses) and commissions.

The Company enters into CDS to hedge credit risk associated with certain loans held within its CIB line of business.

Trading activity, in the tables in this footnote, primarily includes interest rate swaps, equity derivatives, CDS, futures, options and foreign currency contracts. These derivatives are entered into in a dealer capacity to facilitate client transactions or are utilized as a risk management tool by the Company as an end user in certain macro-hedging strategies. The macro-hedging strategies are focused on managing the Company s overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

Note 12 - Fair Value Election and Measurement

The Company carries certain assets and liabilities at fair value on a recurring basis and appropriately classifies them as level 1, level 2, or level 3 within the fair value hierarchy. The Company s recurring fair value measurements are based on a requirement to carry such assets and liabilities at fair value or the Company s election to carry certain financial assets and financial liabilities at fair value. Assets and liabilities that are required to be carried at fair value on a recurring basis include trading securities, securities AFS, and derivative financial instruments. Assets and liabilities that the Company has elected to carry at fair value on a recurring basis include certain LHFI and LHFS, MSRs, certain brokered deposits, and certain issuances of fixed rate debt.

In certain circumstances, fair value enables a company to more accurately align its financial performance with the economic value of actively traded or hedged assets or liabilities. Fair value also enables a company to mitigate the non-economic earnings volatility caused from financial assets and financial liabilities being carried at different bases of accounting, as well as to more accurately portray the active and dynamic management of a company s balance sheet. In cases where the Company believed that fair value was more representative of the results of its activities, the Company elected to carry certain financial instruments at fair value, as discussed further herein.

The classification of an instrument as level 3 versus level 2 involves judgment and is based on a variety of subjective factors in order to assess whether a market is inactive, resulting in the application of significant unobservable assumptions to value a financial instrument. A market is considered inactive if significant decreases in the volume and level of activity for the asset or liability have been observed. In determining whether a market is inactive, the Company evaluates such factors as the number of recent transactions in either the primary or secondary markets, whether price quotations are current, the nature of the market participants, the variability of price quotations, the significance of bid/ask spreads, declines in (or the absence of) new issuances and the availability of public information. Inactive markets necessitate the use of additional judgment when valuing financial instruments, such as pricing matrices, cash flow modeling and the selection of an appropriate discount rate. The assumptions used to estimate the value of an instrument where the market was inactive were based on the Company s assessment of the assumptions a market participant would use to value the instrument in an orderly transaction and included

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considerations of illiquidity in the current market environment. Where the Company determined that a significant decrease in the volume and level of activity had occurred, the Company was then required to evaluate whether significant adjustments were required to market data to arrive at an exit price. In those cases where significant unobservable inputs are used, the financial instruments are classified as level 3.

The following tables present certain information regarding assets and liabilities measured at fair value on a recurring basis and the changes in fair value for those specific financial instruments in which fair value has been elected.

Recurring Fair Value Measurements

		Fair Value Measurements at March 31, 2011 Using		
(Dollars in millions)	**Assets/Liabilities**	**Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Trading assets				
U.S. Treasury securities	**$226**	**$226**	**$-**	**$-**
Federal agency securities	**438**	**-**	**438**	**-**
U.S. states and political subdivisions	**156**	**-**	**156**	**-**
MBS - agency	**221**	**-**	**221**	**-**
MBS - private	**2**	**-**	**-**	**2**
CDO securities	**45**	**-**	**3**	**42**
ABS	**37**	**-**	**32**	**5**
Corporate and other debt securities	**716**	**-**	**716**	**-**
CP	**53**	**-**	**53**	**-**
Equity securities	**156**	**2**	**98**	**56**
Derivative contracts	**2,758**	**222**	**2,536**	**-**
Trading loans	**1,481**	**-**	**1,481**	**-**
Total trading assets	**6,289**	**450**	**5,734**	**105**
Securities AFS				
U.S. Treasury securities	**222**	**222**	**-**	**-**
Federal agency securities	**3,816**	**-**	**3,816**	**-**
U.S. states and political subdivisions	**551**	**-**	**478**	**73**
MBS - agency	**17,995**	**-**	**17,995**	**-**
MBS - private	**338**	**-**	**-**	**338**
CDO securities	**77**	**-**	**77**	**-**
ABS	**720**	**-**	**700**	**20**
Corporate and other debt securities	**56**	**-**	**51**	**5**
Coke common stock	**1,990**	**1,990**	**-**	**-**
Other equity securities	**804**	**-**	**114**	**690** [3]
Total securities AFS	**26,569**	**2,212**	**23,231**	**1,126**

LHFS				
Residential loans	**1,513**	**-**	**1,496**	**17**
Corporate and other loans	**324**	**-**	**324**	**-**
Total LHFS	**1,837**	**-**	**1,820**	**17**
LHFI	**457**	**-**	**-**	**457**
Other intangible assets [2]	**1,538**	**-**	**-**	**1,538**
Other assets [1]	**136**	**-**	**112**	**24**
Liabilities				
Trading liabilities				
U.S. Treasury securities	**540**	**540**	**-**	**-**
Corporate and other debt securities	**277**	**-**	**277**	**-**
Equity securities	**1**	**1**	**-**	**-**
Derivative contracts	**1,913**	**166**	**1,586**	**161**
Total trading liabilities	**2,731**	**707**	**1,863**	**161**
Brokered deposits	**1,181**	**-**	**1,181**	**-**
Long-term debt	**2,854**	**-**	**2,854**	**-**
Other liabilities [1]	**48**	**-**	**22**	**26**

[1] These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk along with a derivative associated with the Company s sale of Visa shares during ended December 31, 2009.

[2] This amount includes MSRs carried at fair value.

[3] Includes $298 million of FHLB of Atlanta stock stated at par value and $391 million of Federal Reserve FHLB of Atlanta stock stated at par value.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Assets/Liabilities	Fair Value Measurements at December 31, 2010 Using Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Trading assets				
U.S. Treasury securities	$187	$187	$-	$-
Federal agency securities	361	-	361	-
U.S. states and political subdivisions	123	-	123	-
MBS - agency	301	-	301	-
MBS - private	15	-	9	6
CDO securities	55	-	2	53
ABS	59	-	32	27
Corporate and other debt securities	743	-	743	-
CP	14	-	14	-
Equity securities	221	-	98	123
Derivative contracts	2,743	166	2,577	-
Trading loans	1,353	-	1,353	-
Total trading assets	6,175	353	5,613	209
Securities AFS				
U.S. Treasury securities	5,516	5,516	-	-
Federal agency securities	1,895	-	1,895	-
U.S. states and political subdivisions	579	-	505	74
MBS - agency	14,358	-	14,358	-
MBS - private	347	-	-	347
CDO securities	50	-	50	-
ABS	808	-	788	20
Corporate and other debt securities	482	-	477	5
Coke common stock	1,973	1,973	-	-
Other equity securities	887	-	197	690 [3]
Total securities AFS	26,895	7,489	18,270	1,136
LHFS				
Residential loans	2,847	-	2,845	2
Corporate and other loans	321	-	316	5
Total LHFS	3,168	-	3,161	7
LHFI	492	-	-	492
Other intangible assets [2]	1,439	-	-	1,439
Other assets [1]	241	-	223	18
Liabilities				
Trading liabilities				

U.S. Treasury securities	439	439	-	-
Corporate and other debt securities	398	-	398	-
Derivative contracts	1,841	120	1,576	145
Total trading liabilities	2,678	559	1,974	145
Brokered deposits	1,213	-	1,213	-
Long-term debt	2,837	-	2,837	-
Other liabilities [1]	114	-	72	42

[1] These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk along with a derivative associated with the Company s sale of Visa shares during the year ended December 31, 2009.

[2] This amount includes MSRs carried at fair value.

[3] Includes $298 million of FHLB of Atlanta stock stated at par value and $391 million of Federal Reserve Bank FHLB of Atlanta stock stated at par value.

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The following tables present the difference between the aggregate fair value and the aggregate unpaid principal balance of trading assets, LHFI, LHFS, brokered deposits, and long-term debt instruments for which the FVO has been elected. For LHFI and LHFS for which the FVO has been elected, the tables also include the difference between aggregate fair value and the aggregate unpaid principal balance of loans that are 90 days or more past due, as well as loans in nonaccrual status.

(Dollars in millions)	**Aggregate Fair Value March 31, 2011**	**Aggregate Unpaid Principal Balance under FVO March 31, 2011**	**Fair Value Over/(Under) Unpaid Principal**
Trading loans	**$1,481**	**$1,456**	**$25**
LHFI	**432**	**485**	**(53)**
Past due loans of 90 days or more	**2**	**4**	**(2)**
Nonaccrual loans	**23**	**42**	**(19)**
LHFS	**1,807**	**1,793**	**14**
Past due loans of 90 days or more	**15**	**15**	**-**
Nonaccrual loans	**15**	**28**	**(13)**
Brokered deposits	**1,181**	**1,142**	**39**
Long-term debt	**2,854**	**2,753**	**101**

(Dollars in millions)	Aggregate Fair Value December 31, 2010	Aggregate Unpaid Principal Balance under FVO December 31, 2010	Fair Value Over/(Under) Unpaid Principal
Trading loans	$1,353	$1,320	$33
LHFI	462	517	(55)
Past due loans of 90 days or more	2	4	(2)
Nonaccrual loans	28	54	(26)
LHFS	3,160	3,155	5
Past due loans of 90 days or more	2	2	-
Nonaccrual loans	6	25	(19)
Brokered deposits	1,213	1,188	25
Long-term debt	2,837	2,753	84

The following tables present the change in fair value during the three months ended March 31, 2011 and 2010 of financial instruments for which the FVO has been elected. The tables do not reflect the change in fair value attributable to the related economic hedges the Company used to mitigate the market-related risks associated with the financial instruments. The changes in the fair value of economic hedges were also recorded in trading account profits/(losses) and commissions, mortgage production related loss, or mortgage servicing related income/(loss), as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company s economic hedging activities are deployed at both the instrument and portfolio level.

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(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended March 31, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Account Profits/(Losses) and Commissions	**Mortgage Production Related Income [2]**	**Mortgage Servicing Related Income**	**Total Changes in Fair Values Included in Current-Period Earnings[1]**
Assets				
Trading loans	**$7**	**$-**	**$-**	**$7**
LHFS	**2**	**30**	**-**	**32**
LHFI	**3**	**(4)**	**-**	**(1)**
MSRs	**-**	**2**	**17**	**19**
Liabilities				
Brokered deposits	**(11)**	**-**	**-**	**(11)**
Long-term debt	**(17)**	**-**	**-**	**(17)**

[1] Changes in fair value for the three months ended March 31, 2011 exclude accrued interest for the periods then ended. Interest income or interest expense on trading assets, LHFI, LHFS, brokered deposits and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income/(Loss) based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these securities, the Company records interest income based on the effective yield calculated upon acquisition of the securities.

[2] For the three months ended March 31, 2011, income related to LHFS includes $86 million related to MSRs recognized upon the sale of loans reported at fair value. For the three months ended March 31, 2011, income related to MSRs includes $2 million of MSRs recognized upon the sale of loans reported at LOCOM. These MSRs are included in the table since the Company elected to report MSRs recognized in 2009 using the fair value method. Previously, MSRs were reported under the amortized cost method.

(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended March 31, 2010, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Account Profits/(Losses) and Commissions	Mortgage Production Related Income [2]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current-Period Earnings[1]
Assets				
Trading loans	$1	$-	$-	$1
LHFS	11	92	-	103
Other intangible assets	-	4	(109)	(105)
Liabilities				
Brokered deposits	(31)	-	-	(31)
Long-term debt	(86)	-	-	(86)

[1] Changes in fair value for the quarter ended March 31, 2010 exclude accrued interest for the periods then ended. Interest income or interest expense on trading assets, LHFI, LHFS, brokered deposits and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income/(Loss) based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these

securities, the Company records interest income based on the effective yield calculated upon acquisition of those securities.

[2] For the quarter ended March 31, 2010, income related to LHFS, includes $62 million related to MSRs recognized upon the sale of loans reported at fair value. For the quarter ended March 31, 2010, income related to MSRs includes $4 million of MSRs recognized upon the sale of loans reported at LOCOM. These MSRs are included in the table since the Company elected to report MSRs recognized in 2009 using the fair value method. Previously, MSRs were reported under the amortized cost method.

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The following is a discussion of the valuation techniques and inputs used in developing fair value measurements for assets and liabilities classified as level 2 or level 3 that are measured at fair value on a recurring basis, based on the class as determined by the nature and risks of the instrument.

Trading Assets and Securities Available for Sale

Unless otherwise indicated, trading assets are priced by the trading desk and independently validated against pricing received from third party pricing sources; securities AFS are valued by an independent third party pricing service that is widely used by market participants. The Company classifies instruments as level 2 in the fair value hierarchy when it is able to determine that external pricing sources are using similar instruments trading in the markets as the basis for estimating fair value.

Federal agency securities

The Company includes in this classification securities issued by federal agencies and GSEs. For SBA instruments, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has also classified these instruments as level 2.

U.S. states and political subdivisions

The Company s investments in U.S. states and political subdivisions (collectively municipals) include obligations of county and municipal authorities and agency bonds, which are general obligations of the municipality or are supported by a specified revenue source. Holdings were geographically dispersed, with no significant concentrations in any one state or municipality. Additionally, 99% of AFS municipal obligations classified as level 2 are rated AAA or AA, or are otherwise collateralized by securities backed by the full faith and credit of the federal government.

Level 3 municipal securities are primarily ARS purchased since the auction rate market began failing in February 2008 and have been considered level 3 securities due to the significant decrease in the volume and level of activity in these markets, which has necessitated the use of significant unobservable inputs into the Company s valuations. Municipal ARS are classified as securities AFS. These securities were valued using comparisons to similar ARS for which auctions are currently successful and/or to longer term, non-ARS issued by similar municipalities. The Company also looked at the relative strength of the municipality and made appropriate downward adjustments in price based on the credit rating of the municipality as well as the relative financial strength of the insurer on those bonds. Although auctions for several municipal ARS have been operating successfully, ARS owned by the Company at March 31, 2011 continued to be classified as level 3 as they are those ARS for which the auctions continued to fail; accordingly, due to the uncertainty around the success rates for auctions and the absence of any successful auctions for these identical securities, the Company continued to price the ARS below par.

Level 3 AFS municipal bond securities also include bonds that are only redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available. In order to estimate pricing on these securities, the Company utilized a third party municipal bond yield curve for the lowest investment grade bonds (BBB rated) and priced each bond based on the yield associated with that maturity.

MBS agency

MBS agency include pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as Fannie Mae, Freddie Mac and Ginnie Mae. Each security contains a guarantee by the issuing GSE or agency.

MBS private

Private-label MBS includes purchased interests in third party securitizations as well as retained interests in Company-sponsored securitizations of residential mortgages. Generally, the Company attempts to obtain pricing for its securities from an independent pricing service or third party brokers who have experience in valuing certain investments. This pricing may be used as either direct support for the Company s valuations or used to validate outputs from its own proprietary models. The Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, market information received from outside market participants and analysts, and/or changes in the underlying collateral performance. When actual trades are not available to corroborate pricing information received, the Company uses industry-standard or proprietary models to estimate fair value and considers assumptions that are generally not observable in the current markets or that are not specific to the securities that the Company owns, such as relevant market indices that correlate to the underlying collateral, prepayment speeds, default rates, loss severity rates and discount rates. As liquidity returns to these markets, we see the availability of more pricing information from third parties and a reduction in the need to

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use internal pricing models to estimate fair value. Even though limited third party pricing has been available, the Company continued to classify private-label MBS as level 3, as the Company believes that this third party pricing relied on a significant amount of unobservable assumptions, as evidenced by a persistently wide bid-ask price range, particularly for the vintage and exposures held by the Company.

Securities that are classified as AFS and are in an unrealized loss position are included as part of our quarterly OTTI evaluation process. See Note 2, Securities Available for Sale, to the Consolidated Financial Statements for details regarding assumptions used to assess impairment and impairment amounts recognized through earnings on private-label MBS during the three months ended March 31, 2011.

CDO Securities

Level 2 securities AFS consists of senior interests in third party CLOs for which independent broker pricing based on market trades and/or from new issuance of similar assets is readily available. At March 31, 2011, the Company s investments in level 3 trading CDOs consisted of senior ARS interests in Company-sponsored securitizations of trust preferred collateral totaling $42 million. During the three months ended March 31, 2011, the Company sold the remaining securities within trading assets related to the SIV liquidation, which included $21 million of CDO securities. In addition, the Company s $20 million retained interest in a structured participation of commercial loans was liquidated through the exercise of the Company s clean up call. For the remaining CDOs classified as level 3 trading assets, increases in the value of these interests during the three months ending March 31, 2011 was due primarily to a steady recovery in the broader CLO market. For the ARS CDO interests, although market conditions have improved, the auctions continued to fail and the Company made significant adjustments to any observable secondary market trading of similar term securities; therefore, the Company continued to classify these investments as level 3 within the fair value hierarchy.

Asset-backed securities

Level 2 ABS classified as securities AFS are interests collateralized by third party securitizations of 2009 through 2011 vintage auto loans. These ABS are either publicly traded or are 144A privately placed bonds. The Company utilizes an independent pricing service to obtain fair values for publicly traded securities and similar securities for estimating the fair value of the privately placed bonds. No significant unobservable assumptions were used in pricing the auto loan ABS; therefore, the Company classified these bonds as level 2. Additionally, the Company classified $32 million of trading ARS and $93 million of AFS ARS collateralized by government guaranteed student loans as level 2 in the fair value hierarchy due to observable market trades and bids for similar senior securities. Student loan ABS held by the Company are generally collateralized by Federal Family Education Loan Program student loans, the majority of which benefit from a 97% (or higher) government guarantee of principal and interest. For subordinate securities in the same structure, the Company adjusts valuations on the senior securities based on the likelihood that the issuer will refinance in the near term, a security s level of subordination in the structure, and/or the perceived risk of the issuer as determined by credit ratings or total leverage of the trust. These adjustments may be significant; therefore, the subordinate student loan ARS held as trading assets continue to be classified as level 3.

During the three months ended March 31, 2011, the Company sold the remaining ABS related to the assets acquired in 2007, including the SIV liquidation that occurred in December 2010. This included $31 million of level 3 trading ABS collateralized by auto loans and home equity lines of credit.

Corporate and other debt securities

Corporate debt securities are predominantly comprised of senior and subordinate debt obligations of domestic corporations. Other debt securities in level 3 include bonds that are redeemable with the issuer at par and cannot be traded in the market; as such, no significant observable market data for these instruments is available.

Commercial paper

From time to time, the Company trades third party CP that is generally short-term in nature (less than 30 days) and highly rated (A-1/P-1). The Company estimates the fair value of the CP that it trades based on observable pricing from executed trades of similar instruments.

Equity securities

Level 2 equity securities, both trading and AFS, consist primarily of money market mutual funds that trade at a $1 net asset value, which is considered the fair market value of those fund shares.

Level 3 equity securities classified as trading include nonmarketable preferred shares in municipal funds issued as ARS that the Company has purchased since the auction rate market began failing in February 2008. These ARS have

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been considered level 3 securities due to the significant decrease in the volume and level of activity in these markets, which has necessitated the use of significant unobservable inputs into the Company s valuations. Valuation of these shares is based on the level of issuer redemptions at par that have occurred as well as discussions with the dealer community.

Level 3 equity securities classified as securities AFS include, as of March 31, 2011 and December 31, 2010, $690 million of FHLB stock and Federal Reserve Bank stock, which are redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available. The Company accounts for the stock based on the industry guidance that requires these investments be carried at cost and evaluated for impairment based on the ultimate recovery of par value.

Derivative contracts (trading assets or trading liabilities)

With the exception of one derivative contract discussed herein and certain instruments discussed under Other assets/liabilities, net that qualify as derivative instruments, the Company s derivative instruments are level 1 or level 2 instruments. Level 1 derivative contracts generally include exchange-traded futures or option contracts for which pricing is readily available.

The Company s level 2 instruments are predominantly standard OTC swaps, options and forwards, with underlying market variables of interest rates, foreign exchange, equity and credit. Because fair values for OTC contracts are not readily available, the Company estimates fair values using internal, but standard, valuation models that incorporate market-observable inputs. The valuation model is driven by the type of contract: for option-based products, the Company uses an appropriate option pricing model, such as Black-Scholes; for forward-based products, the Company s valuation methodology is generally a discounted cash flow approach. The primary drivers of the fair values of derivative instruments are the underlying variables, such as interest rates, exchange rates, equity, or credit. As such, the Company uses market-based assumptions for all of it significant inputs, such as interest rate yield curves, quoted exchange rates and spot prices, market implied volatilities and credit curves.

The Agreements the Company entered into related to its Coke common stock are level 3 instruments, due to the unobservability of a significant assumption used to value these instruments. Because the value is primarily driven by the embedded equity collars on the Coke shares, a Black-Scholes model is the appropriate valuation model. Most of the assumptions are directly observable from the market, such as the per share market price of Coke common stock, interest rates, and the dividend rate on the Coke common stock. Volatility is a significant assumption and is impacted both by the unusually large size of the trade and the long tenor until settlement. Because the derivatives carry scheduled terms of 6.5 and 7 years from the effective date and are on a significant number of Coke shares, the observable and active options market on Coke does not provide for any identical or similar instruments. As such, the Company receives estimated market values from a market participant who is knowledgeable about Coke equity derivatives and is active in the market. Based on inquiries of the market participant as to their procedures, as well as the Company s own valuation assessment procedures, the Company has satisfied itself that the market participant is using methodologies and assumptions that other market participants would use in estimating the fair value of The Agreements. At March 31, 2011 and December 31, 2010, The Agreements combined fair value was a liability of $161 million and $145 million, respectively.

Derivative instruments are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each counterparty is estimated using the Company s proprietary internal risk rating system. The risk rating system utilizes counterparty-specific probabilities of default and loss given default estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. In addition, counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of marketable collateral securing the position. Specifically approved counterparties and exposure limits are defined. Creditworthiness of the approved counterparties is regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach used to estimate exposures to counterparties is also used by the Company to estimate its own credit risk on derivative liability positions. See Note 11, Derivative Financial Instruments , to the Consolidated Financial Statements, for additional information on the Company s derivative contracts.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Trading loans

The Company engages in certain businesses whereby the election to carry loans at fair value for financial reporting aligns with the underlying business purposes. Specifically, the loans that are included within this classification are: (i) loans made in connection with the Company s TRS business (see Note 11, Derivative Financial Instruments , to the Consolidated Financial Statements for further discussion of this business), (ii) loans backed by the SBA and (iii) the loan sales and trading business within the Company s CIB line of business. All of these loans have been classified as level 2 within the fair value hierarchy, due to the market data that the Company uses in its estimates of fair value.

The loans made in connection with the Company s TRS business are short-term, demand loans, whereby the repayment is senior in priority and whose value is collateralized. While these loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are made by the Company to arrive at this conclusion. At March 31, 2011 and December 31, 2010, the Company had outstanding $1.0 billion and $972 million, respectively, of such short-term loans carried at fair value.

SBA loans are similar to SBA securities discussed herein under Federal agency securities , except for their legal form. In both cases, the Company trades instruments that are fully guaranteed by the U.S. government as to contractual principal and interest and has sufficient observable trading activity upon which to base its estimates of fair value.

The loans from the Company s sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to carry these loans at fair value in order to reflect the active management of these positions. The Company is able to obtain fair value estimates for substantially all of these loans using a reputable, third party valuation service that is broadly used by market participants. While most of the loans are traded in the markets, the Company does not believe that trading activity qualifies the loans as level 1 instruments within the fair value hierarchy, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is a more appropriate presentation of the underlying market activity for the loans. At March 31, 2011 and December 31, 2010, $441 million and $381 million, respectively, of loans related to the Company s trading business were outstanding.

Loans and Loans Held for Sale

Residential LHFS

Current U.S. GAAP generally does not require loans to be measured at fair value on a recurring basis, but does provide for an election to do so. As such, in the second quarter of 2007, the Company began recording at fair value certain newly-originated mortgage LHFS based upon defined product criteria. The Company chose to fair value these mortgage LHFS in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value. Specifically, origination fees and costs are recognized in earnings at the time of origination. The servicing value, which had been recorded as MSRs at the time the loan was sold, is now included in the fair value of the loan and initially recognized at the time the Company enters into IRLCs with borrowers. The Company began using derivatives to economically hedge changes in servicing value as a result of including the servicing value in the fair value of the loan. The mark to market adjustments related to LHFS and the associated economic hedges are captured in mortgage production income.

Level 2 LHFS are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities adjusted for servicing and risk. Level 3 loans are primarily non-agency residential mortgages for which there is little to no observable trading activity of similar instruments in either the new issuance or secondary loan markets as either whole loans or as securities. Prior to the non-agency residential loan market disruption, which began during the third quarter of 2007 and continues, the Company was able to obtain certain observable pricing from either the new issuance or secondary loan market. However, as the markets deteriorated and certain loans were not actively trading as either whole loans or as securities, the Company began employing the same alternative valuation methodologies used to value level 3 residential MBS to fair value the loans.

As disclosed in the tabular level 3 rollforwards, transfers of certain mortgage LHFS into level 3 during 2011 were largely due to borrower defaults or the identification of other loan defects impacting the marketability of the loans.

For residential loans that the Company has elected to carry at fair value, the Company has considered the component of the fair value changes due to instrument-specific credit risk, which is intended to be an approximation of the fair

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Notes to Consolidated Financial Statements (Unaudited)-Continued

value change attributable to changes in borrower-specific credit risk. For both the three months ended March 31, 2011 and 2010, the Company recognized losses in the Consolidated Statements of Income/(Loss) of $5 million due to changes in fair value attributable to borrower-specific credit risk. In addition to borrower-specific credit risk, there are other, more significant, variables that drive changes in the fair values of the loans, including interest rates and general conditions in the principal markets for the loans.

Corporate and other LHFS

As discussed in Note 6, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities , the Company has determined that it is the primary beneficiary of a CLO vehicle, which resulted in the Company consolidating the loans of that vehicle. Because the CLO trades its loans from time to time and in order to fairly present the economics of the CLO, the Company elected to carry the loans of the CLO at fair value. The Company is able to obtain fair value estimates for substantially all of these loans using a reputable, third party valuation service that is broadly used by market participants. While most of the loans are traded in the markets, the Company does not believe the loans qualify as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is more representative of the general market activity for the loans.

LHFI

Level 3 loans include $4 million of fair value loans that were acquired through the acquisition of GB&T. The loans the Company elected to account for at fair value are primarily nonperforming commercial real estate loans, which do not trade in an active secondary market. As these loans are classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from internal estimates, incorporating market data when available, of the value of the underlying collateral. Additionally, level 3 LHFI include $453 million of mortgage loans that have been deemed not marketable, largely due to borrower defaults or the identification of other loan defects.

Other Intangible Assets

Other intangible assets that the Company records at fair value are the Company s MSR asset. The fair values of MSRs are determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair values of MSRs are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio. Because these inputs are not transparent in market trades, MSRs are considered to be level 3 assets.

Other Assets/Liabilities, net

The Company s other assets/liabilities that are carried at fair value on a recurring basis include IRLCs that satisfy the criteria to be treated as derivative financial instruments, derivative financial instruments that are used by the Company to economically hedge certain loans and MSRs, and the derivative that the Company obtained as a result of its sale of Visa Class B shares.

The fair value of IRLCs on residential mortgage LHFS, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These pull-through rates are based on the Company s historical data and reflect the Company s best estimate of the likelihood that a commitment will ultimately result in a closed loan. Servicing value is included in the fair value of IRLCs, and the fair value of servicing value is determined by projecting cash flows which are then discounted to estimate an expected fair value. The fair value of servicing value is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees and underlying portfolio characteristics. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets.

During the three months ended March 31, 2011, the Company transferred $14 million of IRLCs out of level 3 as the associated loans were closed.

The Company is exposed to interest rate risk associated with MSRs, IRLCs, mortgage LHFS, and mortgage LHFI reported at fair value. The Company hedges these exposures with a combination of derivatives, including MBS forward and option contracts, interest rate swap and swaption contracts, futures contracts, and eurodollar options. The Company estimates the fair values of such derivative instruments consistent with the methodologies discussed herein under Derivative contracts and accordingly these derivatives are considered to be level 2 instruments.

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During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of litigation involving Visa. The value of the derivative was estimated based on the Company s expectations regarding the ultimate resolution of that litigation, which involved a high degree of judgment and subjectivity. Accordingly, the value of the derivative liability was classified as a level 3 instrument.

Liabilities

Trading liabilities

Trading liabilities are primarily comprised of derivative contracts, but also include various contracts involving U.S. Treasury securities, Federal agency securities and corporate debt securities that the Company uses in certain of its trading businesses. The Company employs the same valuation methodologies for these derivative contracts and securities as are discussed within the corresponding sections herein under Trading Assets and Securities Available for Sale .

Brokered deposits

The Company has elected to measure certain CDs at fair value. These debt instruments include embedded derivatives that are generally based on underlying equity securities or equity indices, but may be based on other underlyings that may or may not be clearly and closely related to the host debt instrument. The Company elected to carry these instruments at fair value in order to remove the mixed attribute accounting model for the single debt instrument or to better align the economics of the CDs with the Company s risk management strategies. The Company evaluated, on an instrument by instrument basis, whether a new issuance would be carried at fair value.

The Company has classified these CDs as level 2 instruments due to the Company s ability to reasonably measure all significant inputs based on observable market variables. The Company employs a discounted cash flow approach to the host debt component of the CD, based on observable market interest rates for the term of the CD and an estimate of the Bank s credit risk. For the embedded derivative features, the Company uses the same valuation methodologies as if the derivative were a standalone derivative, as discussed herein under Derivative contracts .

For brokered deposits carried at fair value, the Company estimated credit spreads above LIBOR, based on credit spreads from actual or estimated trading levels of the debt, or other relevant market data. The Company recognized losses of approximately $14 million and $16 million for the three months ended March 31, 2011 and 2010, respectively, due to changes in its own credit spread on its brokered deposits carried at fair value.

Long-term debt

The Company has elected to carry at fair value certain fixed rate debt issuances of public debt in which it has entered into derivative financial instruments that economically converted the interest rate on the debt from fixed to floating. The election to fair value the debt was made in order to align the accounting for the debt with the accounting for the derivatives without having to account for the debt under hedge accounting, thus avoiding the complex and time consuming fair value hedge accounting requirements.

The publicly-issued, fixed rate debt that the Company has elected to carry at fair value is valued by obtaining quotes from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. In addition, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company determined that the appropriate classification for the debt was level 2.

For the publicly-traded fixed rate debt carried at fair value, the Company estimated credit spreads above U.S. Treasury rates based on credit spreads from actual or estimated trading levels of the debt, or other relevant market data. The Company recognized losses of $19 million and $80 million for the three months ended March 31, 2011 and 2010, respectively, due to changes in its own credit spread on its public debt carried at fair value.

The Company also carries approximately $289 million of issued securities contained in a consolidated CLO at fair value in order to recognize the nonrecourse nature of these liabilities to the Company. Specifically, the holders of the liabilities are only paid interest and principal to the extent of the cash flows from the assets of the vehicle and the Company has no current or future obligations to fund any of the CLO vehicle s liabilities. The Company has classified these securities as level 2, as the primary driver of their fair values are the loans owned by the CLO, which the Company has also elected to carry at fair value, as discussed herein under Loans and Loans Held for Sale Corporate and other loans .

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Notes to Consolidated Financial Statements (Unaudited)-Continued

The following tables show a reconciliation of the beginning and ending balances for fair valued assets and liabilities measured on a recurring basis using significant unobservable inputs (other than MSRs which are disclosed in Note 5, Goodwill and Other Intangible Assets , to the Consolidated Financial Statements). Transfers into and out of the fair value hierarchy levels are assumed to be as of the end of the quarter in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values.

Fair Value Measurements
Using Significant Unobservable Inputs

(Dollars in millions)	Beginning balance January 1, 2011	Included in earnings	OCI	Sales	Settlements	Transfers to/from other balance sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value March 31, 2011	Change in unrealized gains/(losses) included in earnings for the three months ended March 31, 2011 related to financial assets still held at March 31, 2011
Assets										
Trading assets										
MBS - private	$6	$2	$-	($5)	($1)	$-	$-	$-	$2	$-
CDO securities	53	31 [5]	-	(21)	(1)	(20)	-	-	42	18 [5]
ABS	27	9 [5]	-	(31)	-	-	-	-	5	2 [5]
Equity securities	123	8 [5]	-	-	(75)	-	-	-	56	2
Total trading assets	209	50 [1]	-	(57)	(77)	(20)	-	-	105	22 [1]
Securities AFS										
U.S. states and political subdivisions	74	-	-	-	(1)	-	-	-	73	-
MBS - private	347	(1)	18	-	(26)	-	-	-	338	(1)
ABS	20	-	2	-	(2)	-	-	-	20	-
Corporate and other debt securities	5	-	-	-	-	-	-	-	5	-
Other equity securities	690	-	-	-	-	-	-	-	690	-
Total securities AFS	1,136	(1) [2]	20	-	(29)	-	-	-	1,126	(1) [2]
LHFS										
Residential loans	2	(1) [3]	-	(2)	(1)	9	11	(1)	17	(3)
Corporate and other loans	5	(1) [7]	-	-	-	(4)	-	-	-	-
LHFI	492	(1) [4]	-	-	(23)	(11)	-	-	457	(2) [4]
Other assets/(liabilities), net	(24)	36 [3]	-	-	-	(14)	-	-	(2)	36 [3]
Liabilities										
Trading liabilities	(145)	-	(16) [6]	-	-	-	-	-	(161)	-

[1] Amounts included in earnings are recorded in trading account profits/(losses) and commissions.

[2] Amounts included in earnings are recorded in net securities gains.

[3] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related income.

[4] Amounts are generally included in mortgage production related income, however, the mark on certain fair value loans is included in trading account profits/(losses) and commissions.

[5] Amounts included in earnings do not include losses accrued as a result of the ARS settlement discussed in Note 14, Contingencies, to the Consolidated Financial Statements.

[6] Amount recorded in OCI is the effective portion of the cash flow hedges related to the Company s probable forecasted sale of its shares of Coke common stock as discussed in Note 11, Derivative Financial Instruments, to the Consolidated Financial Statements.

[7] Amounts included in earnings are recorded in other noninterest income.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Fair Value Measurements

Using Significant Unobservable Inputs

(Dollars in millions)	Ending balance December 31 2009	Reclassifications	Beginning balance January 1 2010	Included in earnings	Other comprehensive income	Purchases, sales, issuances, settlements, maturities paydowns, net	Transfers to/from other balance sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value March 31, 2010	Change in unrealized gains/(losses) included in earnings for the three months ended March 31, 2010 related to financial assets still held at March 31, 2010
Assets											
Trading assets											
U.S. states and political subdivisions	$7	$-	$7	$-	$-	($1)	$-	$-	$-	$6	$-
MBS - private	14	(8)	6	-	-	(1)	-	-	-	5	-
CDO securities	175	-	175	11 [5]	-	(27)	-	-	-	159	5
ABS	-	51	51	4 [5]	-	(4)	-	-	-	51	3
Corporate and other debt securities	25	(25)	-	-	-	-	-	-	-	-	-
Equity securities	151	-	151	6 [5]	-	(12)	-	-	-	145	5
Derivative contracts	-	-	-	7	15 [6]	-	-	-	-	22	-
Other	18	(18)	-	-	-	-	-	-	-	-	-
Total trading assets	390	-	390	28 [1]	15	(45)	-	-	-	388	13 [1]
Securities AFS											
U.S. states and political subdivisions	132	-	132	-	-	(1)	-	-	-	131	-
MBS - private	407	(29)	378	(1)	17	(25)	-	-	-	369	(1)
ABS	-	102	102	1 [5]	(8)	13	-	-	-	108	-
Corporate and other debt securities	78	(73)	5	-	-	-	-	-	-	5	-
Other equity securities	705	-	705	-	-	-	-	-	-	705	-
Total securities AFS	1,322	-	1,322	- [2]	9	(13)	-	-	-	1,318	(1) [2]
LHFS	151	(151)	-	-	-	-	-	-	-	-	-
Residential loans	-	142	142	(1) [3]	-	(19)	10	20	-	152	(8) [3]
Corporate and other loans	-	9	9	-	-	-	-	-	-	9	-
LHFI	449	-	449	-	-	(13)	(13)	-	(1)	422	2 [4]
Other assets/(liabilities), net	(35)	-	(35)	92 [3]	-	-	(67)	-	-	(10)	-
Liabilities											
Trading liabilities											
Derivative contracts	(46)	-	(46)	-	46 [6]	-	-	-	-	-	-

[1] Amounts included in earnings are recorded in trading account profits/(losses) and commissions.

[2] Amounts included in earnings are recorded in net securities gains/(losses).

[3] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related income.

[4] Amounts are generally included in mortgage production related income. The mark on these loans is included in trading account profits and commissions.

[5] Amounts included in earnings do not include losses accrued as a result of the ARS settlement discussed in Note 14, Contingencies, to the Consolidated Financial Statements.

[6] Amount recorded in OCI is the effective portion of the cash flow hedges related to the Company s probable forecasted sale of its shares of Coke stock as discussed in Note 11, Derivative Financial Instruments, to the Consolidated Financial Statements.

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Non-recurring Fair Value Measurements

The following tables present the change in carrying value of those assets measured at fair value on a non-recurring basis, for which impairment was recognized. The table does not reflect the change in fair value attributable to any related economic hedges the Company may have used to mitigate the interest rate risk associated with LHFS and MSRs. The Company s economic hedging activities for LHFS and MSRs are deployed at the portfolio level.

		Fair Value Measurement at March 31, 2011 Using			
(Dollars in millions)	Net Carrying Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Allowance
LHFS	**$328**	**$-**	**$74**	**$254**	**$-**
LHFI	**141**	**-**	**-**	**141**	**(31)**
OREO	**534**	**-**	**495**	**39**	**(107)**
Other Assets	**63**	**-**	**7**	**56**	**(2)**

		Fair Value Measurement at December 31, 2010, Using			
(Dollars in millions)	Net Carrying Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Allowance
LHFS	$333	$-	$142	$191	$-
LHFI	85	-	-	85	(15)
OREO	596	-	553	43	(116)
Affordable Housing	357	-	-	357	-
Other Assets	130	-	90	40	(20)

The following is a discussion of the valuation techniques and inputs used in developing fair value measurements for assets classified as level 2 or level 3 that are measured at fair value on a non-recurring basis, based on the class as determined by the nature and risks of the instrument.

Loans Held for Sale

Level 2 LHFS consist primarily of conforming, residential mortgage loans and corporate loans that are accounted for at LOCOM. Level 3 LHFS consist of non-agency residential mortgage LHFS for which there is little or no secondary market activity and leases held for sale. These loans are valued consistent with the methodology discussed in the Recurring Fair Value Measurement section of this footnote. Leases held for sale are valued using internal estimates which incorporate market data when available. Due to the lack of current market data for comparable leases, these assets are considered level 3.

During the three months ended March 31, 2011, the Company transferred $47 million in NPLs, net of a $10 million incremental charge-off, that were previously designated as LHFI to LHFS in conjunction with the Company s election to actively market these loans for sale. These loans were predominantly reported at amortized cost prior to transferring to LHFS; however, a portion of the NPLs was carried at fair value. The Company executed a similar transfer of $160 million in NPLs during the three months ended March 31, 2010; these loans were subsequently sold at prices approximating fair value.

Loans Held for Investment

LHFI consist primarily of nonperforming commercial real estate loans for which specific reserves have been recorded. As these loans have been classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from internal estimates of the underlying collateral incorporating market data when available. Due to the lack of market data for similar assets, these loans are considered level 3.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

OREO

OREO is measured at the lower of cost or the fair value, less costs to sell. Level 2 OREO consists primarily of residential homes, commercial properties, and vacant lots and land for which current property-specific appraisals, broker pricing opinions, or other market information is available. Level 3 OREO consists of lots and land for which current property-specific values are not available. The Company values these properties using a pooled approach.

Affordable Housing

The Company evaluates its consolidated affordable housing partnership investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment is recorded when the carrying amount of the partnership exceeds its fair value. Fair value measurements for affordable housing investments are derived from internal models using market assumptions when available. Significant assumptions utilized in these models include cash flows, market capitalization rates and tax credit market pricing. Due to the lack of comparable sales in the marketplace, these valuations are considered level 3. No impairment was recorded during the three months ended March 31, 2011 and 2010.

Other Assets

Other assets consist of private equity investments, structured leasing products, other repossessed assets and assets under operating leases where the Company is the lessor.

Investments in private equity partnerships are valued based on the estimated expected remaining cash flows to be received from these assets discounted at a market rate that is commensurate with their risk profile. Based on the valuation methodology and the lack of observable inputs, these investments are considered level 3. During both the three months ended March 31, 2011 and 2010, the Company recorded impairment charges attributable to these investments of $2 million.

Structured leasing consists of assets held for sale under third party operating leases. These assets consist primarily of commercial buildings and are recorded at fair value less cost to sell. These assets are valued based on internal estimates which incorporate current market data for similar assets when available. Due to the lack of current market data for comparable assets, these assets are considered level 3. During the three months ended March 31, 2011, the Company recorded no impairment charges attributable to these assets. During the three months ended March 31, 2010 the Company recorded impairment charges attributable to these assets of $2 million.

Other repossessed assets consist of repossessed personal property that is measured at fair value less cost to sell. These assets are considered level 2 as their fair value is determined based on market comparables and broker opinions. During the three months ended March 31, 2011, the Company recorded no impairment charges attributable to these assets. During the three months ended March 31, 2010, the Company recorded $6 million in impairment charges attributable to these assets.

The Company monitors the fair value of assets under operating leases, where the Company is the lessor, and records impairment to the extent the carrying value is not recoverable and the fair value is less than its carrying value. Fair value is determined using collateral specific pricing digests, external appraisals and recent sales data from industry equipment dealers. As market data for similar assets is available and used in the valuation, these assets are considered level 2. During the three months ended March 31, 2011 and 2010, the Company recorded impairment charges of less than $1 million and $9 million, respectively, attributable to the fair value of various personal property under operating leases.

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Notes to Consolidated Financial Statements (Unaudited)-Continued

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company s financial instruments at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011		December 31, 2010	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 6,217**	**$ 6,217** (a)	$ 5,378	$ 5,378 (a)
Trading assets	**6,289**	**6,289** (b)	6,175	6,175 (b)
Securities AFS	**26,569**	**26,569** (b)	26,895	26,895 (b)
LHFS	**2,165**	**2,165** (c)	3,501	3,501 (c)
LHFI	**114,932**	**114,932**	115,975	115,975
Interest/credit adjustment on LHFI	**(2,854)**	**(3,854)**	(2,974)	(3,823)
LHFI, as adjusted for interest/credit risk	**112,078**	**111,078** (d)	113,001	112,152 (d)
Market risk/liquidity adjustment on LHFI	**-**	**(3,767)**	-	(3,962)
LHFI, fully adjusted	**$ 112,078**	**$ 107,311** (d)	$ 113,001	$ 108,190 (d)
Financial liabilities				
Consumer and commercial deposits	**$ 121,559**	**$ 121,844** (e)	$ 120,025	$ 120,368 (e)
Brokered deposits	**2,369**	**2,391** (f)	2,365	2,381 (f)
Foreign deposits	**57**	**57** (f)	654	654 (f)
Short-term borrowings	**6,121**	**6,117** (f)	5,821	5,815 (f)
Long-term debt	**14,663**	**14,351** (f)	13,648	13,191 (f)
Trading liabilities	**2,731**	**2,731** (b)	2,678	2,678 (b)

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

(a) Cash and cash equivalents are valued at their carrying amounts reported in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

(b) Securities AFS, trading assets, and trading liabilities that are classified as level 1 are valued based on quoted market prices. For those instruments classified as level 2 or level 3, refer to the respective valuation discussions within this footnote.

(c) LHFS are generally valued based on observable current market prices or, if quoted market prices are not available, on quoted market prices of similar instruments. In instances when significant valuation assumptions are not readily observable in the market, instruments are valued based on the best available data in order to approximate fair value. This data may be internally-developed and considers risk premiums that a market participant would require under then-current market conditions. Refer to the LHFS section within this footnote for further discussion of the LHFS carried at fair value.

(d) LHFI fair values are based on a hypothetical exit price, which does not represent the estimated intrinsic value of the loan if held for investment. The assumptions used are expected to approximate those that a market participant purchasing the loans would use to value the loans, including a market risk premium and liquidity discount. Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid, or for certain loan types, nonexistent, requires significant judgment. Therefore, the estimated fair value can vary significantly depending on a market participant s ultimate considerations and assumptions. The final value yields a market participant s expected return on investment that is indicative of the current market conditions, but it does not take into consideration the Company s estimated value from continuing to hold these loans or its lack of willingness to transact at these estimated values.

The Company estimated fair value based on estimated future cash flows discounted, initially, at current origination rates for loans with similar terms and credit quality, which derived an estimated value of 99% on the loan portfolio s net carrying value as of March 31, 2011 and December 31, 2010. The value derived from origination rates likely does not represent an exit price; therefore, an incremental market risk and liquidity discount was subtracted from the initial value as of March 31, 2011 and December 31, 2010, respectively. The discounted value is a function of a market participant s required yield in the current environment and is not a reflection of the expected cumulative losses on the

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loans. Loan prepayments are used to adjust future cash flows based on historical experience and prepayment model forecasts. The value of related accrued interest on loans approximates fair value; however, it is not included in the carrying amount or fair value of loans. The value of long-term customer relationships is not permitted under current U.S. GAAP to be included in the estimated fair value.

(e) Deposit liabilities with no defined maturity such as demand deposits, NOW/money market accounts, and savings accounts have a fair value equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for CDs are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities. The assumptions used in the discounted cash flow analysis are expected to approximate those that market participants would use in valuing deposits. The value of long-term relationships with depositors is not taken into account in estimating fair values.

(f) Fair values for foreign deposits, certain brokered deposits, short-term borrowings, and certain long-term debt are based on quoted market prices for similar instruments or estimated using discounted cash flow analysis and the Company s current incremental borrowing rates for similar types of instruments. For brokered deposits and long-term debt that the Company carries at fair value, refer to the respective valuation sections within this footnote.

Note 13 Reinsurance Arrangements and Guarantees

Reinsurance

The Company provides mortgage reinsurance on certain mortgage loans through contracts with several primary mortgage insurance companies. Under these contracts, the Company provides aggregate excess loss coverage in a mezzanine layer in exchange for a portion of the pool s mortgage insurance premium. As of March 31, 2011, approximately $11.1 billion of mortgage loans were covered by such mortgage reinsurance contracts. The reinsurance contracts are intended to place limits on the Company s maximum exposure to losses by defining the loss amounts ceded to the Company as well as by establishing trust accounts for each contract. The trust accounts, which are comprised of funds contributed by the Company plus premiums earned under the reinsurance contracts, are maintained to fund claims made under the reinsurance contracts. If claims exceed funds held in the trust accounts, the Company does not intend to make additional contributions beyond future premiums earned under the existing contracts.

At March 31, 2011, the total loss exposure ceded to the Company was approximately $443 million; however, the maximum amount of loss exposure based on funds held in each separate trust account, including net premiums due to the trust accounts, was limited to $114 million. Of this amount, $105 million of losses have been reserved for as of March 31, 2011, reducing the Company s net remaining loss exposure to $9 million. The reinsurance reserve was $148 million as of December 31, 2010. The decrease in the reserve balance was due to claim payments made to the primary mortgage insurance companies during the first quarter. The Company s evaluation of the required reserve amount includes an estimate of claims to be paid by the trust in relation to loans in default and an assessment of the sufficiency of future revenues, including premiums and investment income on funds held in the trusts, to cover future claims. Future reported losses may exceed $9 million, since future premium income will increase the amount of funds held in the trust; however, future cash losses, net of premium income, are not expected to exceed $9 million. The amount of future premium income is limited to the population of loans currently outstanding since additional loans are not being added to the reinsurance contracts; future premium income could be further curtailed to the extent the Company agrees to relinquish control of individual trusts to the mortgage insurance companies. Premium income, which totaled $8 million and $11 million for the three months ended March 31, 2011 and 2010, respectively, is reported as part of noninterest income. The related provision for losses, which totaled $7 million and $9 million for the three months ended March 31, 2011 and 2010, respectively, is reported as part of noninterest expense.

Guarantees

The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform, and should certain triggering events occur, it also imposes an obligation to make future payments. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provisions of the Company s services. The following discussion appends and updates certain guarantees disclosed in Note 18, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements in the Company s 2010 Annual Report on Form 10-K. In addition, the Company has entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives (see Note 11, Derivative Financial Instruments, to the

Consolidated Financial Statements).

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Letters of Credit

Letters of credit are conditional commitments issued by the Company generally to guarantee the performance of a client to a third party in borrowing arrangements, such as CP, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients and may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as financial standby, performance standby, or commercial letters of credit. Commercial letters of credit are specifically excluded from the disclosure and recognition requirements.

As of March 31, 2011 and December 31, 2010, the maximum potential amount of the Company s obligation was $5.9 billion and $6.4 billion, respectively, for financial and performance standby letters of credit. The Company has recorded $109 million in other liabilities for unearned fees related to these letters of credit as of March 31, 2011 and December 31, 2010. The Company s outstanding letters of credit generally have a term of less than one year but may extend longer than one year. If a letter of credit is drawn upon, the Company may seek recourse through the client s underlying obligation. If the client s line of credit is also in default, the Company may take possession of the collateral securing the line of credit, where applicable. The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with credit policies. Some standby letters of credit are designed to be drawn upon and others are drawn upon only under circumstances of dispute or default in the underlying transaction to which the Company is not a party. In all cases, the Company holds the right to reimbursement from the applicant and may or may not also hold collateral to secure that right. An internal assessment of the probability of default and loss severity in the event of default is assessed consistent with the methodologies used for all commercial borrowers. The management of credit risk regarding letters of credit leverages the risk rating process to focus higher visibility on the higher risk and higher dollar letters of credit. The associated reserve is a component of the unfunded commitment reserve recorded in other liabilities included in the allowance for credit losses as disclosed in Note 4, Allowance for Credit Losses, to the Consolidated Financial Statements.

Loan Sales

STM, a consolidated subsidiary of SunTrust, originates and purchases residential mortgage loans, a portion of which are sold to outside investors in the normal course of business, through a combination of whole loan sales to GSEs, Ginnie Mae, and non-agency investors, as well as a limited amount of Company sponsored securitizations. When mortgage loans are sold, representations and warranties regarding certain attributes of the loans sold are made to these third party purchasers. Subsequent to the sale, if a material underwriting deficiency or documentation defect is discovered, STM may be obligated to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such deficiency or defect cannot be cured by STM within the specified period following discovery. These representations and warranties may extend through the life of the mortgage loan, up to 25 to 30 years; however, most demands occur within the first few years of origination. STM s risk of loss under its representations and warranties is largely driven by borrower payment performance since investors will perform extensive reviews of delinquent loans as a means of mitigating losses.

Loan repurchase requests relate primarily to loans sold during the period from January 1, 2005 to March 31, 2011, which totaled $233.2 billion at the time of sale, consisting of $178.8 billion and $30.3 billion of agency and non-agency loans, respectively, as well as $24.1 billion of loans sold to Ginnie Mae. The composition of the remaining outstanding balance by vintage and type of buyer as of March 31, 2011 is shown in the following table.

	Remaining Outstanding Balance by Year of Sale							
(Dollars in billions)	2005	2006	2007	2008	2009	2010	2011	Total
GSE	$5.2	$6.3	$12.2	$13.6	$29.4	$17.6	$5.5	$89.8
Ginnie Mae	0.8	0.7	0.7	3.2	6.3	3.9	0.8	16.4
Non-agency	6.1	6.2	3.7	-	-	-	-	16.0
Total	$12.1	$13.2	$16.6	$16.8	$35.7	$21.5	$6.3	$122.2

Non-agency loan sales include whole loans and loans sold in private securitization transactions. While representation and warranties have been made related to these sales, they differ in many cases from those made in connection with loans sold to the GSEs in that non-agency loans may not be required to meet the same underwriting standards and, in addition to identifying a representation or warranty breach, non-agency investors are generally required to demonstrate that the breach was material and directly related to the cause of default. Loans sold to Ginnie Mae are insured by either the FHA or VA. As servicer, we may

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elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. Although we indemnify FHA and VA for losses related to loans not originated in accordance with their guidelines, such occurrences are limited and no repurchase liability has been recorded for loans sold to Ginnie Mae.

Although the timing and volume has varied, repurchase and make whole requests have increased over the past several years. Repurchase request volume was $313 million during the three months ended March 31, 2011 and $1.1 billion, $1.1 billion, and $557 million during the years ended 2010, 2009, and 2008, respectively, and on a cumulative basis since 2005 has been $3.8 billion. The majority of these requests are from GSEs, with a limited number of requests having been received related to non-agency investors; repurchase requests from non-agency investors were $27 million during three months ended March 31, 2011 and $55 million, $99 million, and $148 million during the years ended 2010, 2009, and 2008, respectively. In addition, repurchase requests related to loans originated in 2006 and 2007 have consistently comprised the vast majority of total repurchase requests during the past three years. The repurchase and make whole requests received have been primarily due to material breaches of representations related to compliance with the applicable underwriting standards, including borrower misrepresentation and appraisal issues. STM performs a loan by loan review of all requests and demands have been and will continue to be contested to the extent they are not considered valid. At March 31, 2011, the unpaid principal balance of loans related to unresolved requests previously received from investors was $363 million, comprised of $326 million from the GSEs and $37 million from non-agency investors. Comparable amounts at December 31, 2010, were $293 million, comprised of $264 million from the GSEs and $29 million from non-agency investors.

As of March 31, 2011 and December 31, 2010, the liability for contingent losses related to sold loans totaled $270 million and $265 million, respectively. The liability is recorded in other liabilities in the Consolidated Balance Sheets, and the related repurchase costs are recognized in mortgage production related loss in the Consolidated Statements of Income/(Loss). The Company does not maintain any legal reserves with respect to mortgage repurchase activity because there is currently no litigation outstanding. The following table summarizes the changes in the Company s reserve for mortgage loan repurchase losses:

	Three Months Ended March 31	
(Dollars in millions)	**2011**	2010
Balance at beginning of period	**$265**	$200
Repurchase costs	**80**	128
Charge-offs	**(75)**	(118)
Balance at end of period	**$270**	$210

During the three months ended March 31, 2011 and 2010, the Company repurchased or otherwise settled mortgages with unpaid principal balances of $138 million and $204 million, respectively, related to investor demands. As of March 31, 2011 and December 31, 2010, the carrying value of outstanding repurchased mortgage loans, net of any allowance for loan losses, totaled $171 million and $153 million, respectively, of which $92 million and $86 million, respectively, were nonperforming.

STM also maintains a liability for contingent losses related to MSR sales, which totaled $7 million and $6 million as of March 31, 2011 and December 31, 2010, respectively.

Tax Credits Sold

SunTrust Community Capital, a SunTrust subsidiary, previously obtained state and federal tax credits through the construction and development of affordable housing properties and continues to obtain state and federal tax credits through investments as a limited partner in affordable housing developments. SunTrust Community Capital or its subsidiaries are limited and/or general partners in various partnerships established for the properties. If the partnerships generate tax credits, those credits may be sold to outside investors. As of March 31, 2011, SunTrust Community Capital has completed six tax credit sales containing guarantee provisions stating that SunTrust Community Capital will make payment to the outside investors if the tax credits become ineligible. SunTrust Community Capital also guarantees that the general partner under the transaction will perform on the delivery of the credits. The guarantees are expected to expire within a ten year period from inception. As of March 31, 2011, the maximum potential amount that SunTrust Community Capital could be obligated to pay under these guarantees is $37 million; however, SunTrust Community Capital can seek recourse against the general partner. Additionally, SunTrust Community Capital can seek reimbursement from cash flow and residual values of the underlying affordable housing properties provided that the properties retain value. As of March 31, 2011 and December 31, 2010, $7 million was accrued representing the remainder of tax credits to be delivered, and were recorded in other liabilities on the Consolidated Balance Sheets.

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Other

In the normal course of business, the Company enters into indemnification agreements and provides standard representations and warranties in connection with numerous transactions. These transactions include those arising from securitization activities, underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, payment processing sponsorship agreements, and various other business transactions or arrangements. The extent of the Company s obligations under these indemnification agreements depends upon the occurrence of future events; therefore, the Company s potential future liability under these arrangements is not determinable.

Note 14 Contingencies

Litigation and Regulatory Matters

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the course of their normal business activities, some of which involve claims for substantial amounts. The Company s experience has shown that the damages alleged by plaintiffs or claimants are often overstated, unsubstantiated by legal theory, unsupported by the facts, and/or bear no relation to the ultimate award that a court might grant. In addition, the outcome of litigation and regulatory matters and timing of ultimate resolution are inherently difficult to predict. Because of these factors, the Company typically cannot provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. On a case-by-case basis, however, reserves are established for those legal claims in which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. In no cases are those accrual amounts material to the financial condition of the Company. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved.

For a limited number of legal matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses. For other matters for which a loss is probable or reasonably possible, such an estimate is not possible. For those matters where an estimate is reasonably possible, management currently estimates the aggregate range of reasonably possible losses as $100 million to $150 million in excess of the accrued liability, if any, related to those matters. This estimated range of reasonably possible losses represents the estimated possible losses over the life of such legal matters, which may span a currently indeterminable number of years, and is based on information currently available as of March 31, 2011. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range and, therefore, this estimated range does not represent the Company s maximum loss exposure. Based on current knowledge, it is the opinion of management that liabilities arising from legal claims in excess of the amounts currently accrued, if any, will not have a material impact to the Company s financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company s results or cash flows for any given reporting period.

The following appends and updates certain litigation and regulatory matters disclosed in Note 21, Contingencies, to the Consolidated Financial Statements in the Company s 2010 Annual Report on Form 10-K.

Auction Rate Securities Investigations and Claims

FINRA Auction Rate Securities Investigation

In September 2008, STRH and STIS entered into an agreement in principle with FINRA related to the sales and brokering of ARS by STRH and STIS. This agreement was non-binding and subject to the negotiation of a final settlement. The parties were unable to finalize this agreement and FINRA continued its investigation. At this time the Company believes that FINRA has completed its investigation and intends to recommend that charges be filed against both STRH and STIS. While the parties continue to engage in settlement discussions, the Company moved forward with ARS purchases from essentially the same categories of investors who would have been covered by the original agreement with FINRA as well as certain other investors not addressed by the agreement. As of March 31, 2011, the Company has purchased all ARS covered by the original agreement. The fair value of ARS purchased pursuant to the pending settlement, net of sales, redemptions and calls, is approximately $97 million and $147 million in trading securities and $116 million and $128 million in securities AFS, at March 31, 2011 and December 31, 2010, respectively. The losses related to the FINRA agreement were accrued in 2008; however, during the three months ended

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March 31, 2011 and 2010, the Company recognized gains relating to these ARS of $30 million and $8 million, respectively. These amounts are comprised of net trading gains and net securities gains resulting primarily from sales, calls and redemptions of both trading securities and securities AFS that were purchased from investors, as well as net mark to market gains on positions that continue to be held by the Company. Due to the pass-through nature of these security purchases, gains and losses are included in the Corporate Other and Treasury segment.

Other ARS Claims

Since April 2008, several arbitrations and individual lawsuits have been filed against STRH and STIS by parties who purchased ARS through these entities. Broadly stated, these complaints allege that STRH and STIS made misrepresentations about the nature of these securities and engaged in conduct designed to mask some of the liquidity risk associated with them. They also allege that STRH and STIS were aware of the risks and problems associated with these securities, and took steps in advance of the wave of auction failures to remove these securities from their own holdings. The claimants in these actions are seeking to recover the par value of the ARS in question as well as compensatory and punitive damages in unspecified amounts. The Company reserved $37 million and $29 million as of March 31, 2011 and December 31, 2010, respectively, for estimated probable losses related to ARS claims, and recognized those probable losses in trading account profits/(losses) and commissions in the Consolidated Statements of Income/(Loss).

SunTrust Mortgage, Inc. v United Guaranty Residential Insurance Company of North Carolina

STM filed a suit in the Eastern District of Virginia in July of 2009 against United Guaranty Residential Insurance Company of North Carolina (UGRIC) seeking payment involving denied mortgage insurance claims regarding second lien mortgages. STM s claims are in two counts. Count One involves a common reason for denial of claims by UGRIC for a group of loans. Count Two involves a group of loans with individualized reasons for the claim denials asserted by UGRIC. The two counts filed by STM have been bifurcated for trial purposes. UGRIC has counterclaimed for declaratory relief involving interpretation of the insurance policy involving certain caps on the amount of claims covered, whether ongoing premium obligations exist after any caps are met, and the potential to accelerate any premiums that may be owed if UGRIC prevails on its counterclaim. UGRIC later disclaimed its argument for acceleration of premiums. The parties filed cross motions for summary judgment which all were denied in December 2010. The Court is expected to issue rulings on a variety of issues in the near future.

SunTrust Securities Class Action Litigation

Beginning in May 2009, the Company, STRH, SunTrust Capital IX and officers and directors of the Company and others were named in three putative class actions arising out of the offer and sale of approximately $690 million of SunTrust Capital IX 7.875% Trust Preferred Securities (TRUPs) of SunTrust Banks, Inc. The complaints alleged, among other things, that the relevant registration statement and accompanying prospectus misrepresented or omitted material facts regarding the Company s allowance for loan and lease loss reserves, the Company s capital position and its internal risk controls. Plaintiffs seek to recover alleged losses in connection with their investment in the TRUPs or to rescind their purchases of the TRUPs. These cases were consolidated under the caption *Belmont Holdings Corp., et al., v. SunTrust Banks, Inc., et al.*, in the U.S. District Court for the Northern District of Georgia, Atlanta Division, and on November 30, 2009, a consolidated amended complaint was filed. On January 29, 2010, Defendants filed a motion to dismiss the consolidated amended complaint. This motion was granted, with leave to amend, on September 10, 2010. On October 8, 2010, the lead plaintiff filed an amended complaint in an attempt to address the pleading deficiencies identified in the Court s dismissal decision. The Company filed a motion to dismiss the amended complaint on March 21, 2011 and expects that this motion will be fully briefed by the end of May 2011.

Consent Order with the Federal Reserve

On April 13, 2011 SunTrust Banks, Inc., SunTrust Bank and SunTrust Mortgage, Inc. entered into a Consent Order with the Federal Reserve in which SunTrust Banks, Inc., SunTrust Bank and SunTrust Mortgage, Inc. agreed to strengthen oversight of, and improve, risk management, internal audit and compliance programs concerning the residential mortgage loan servicing, loss mitigation and foreclosure activities of SunTrust Mortgage, Inc. Under the terms of the Consent Order, SunTrust Bank and SunTrust Mortgage, Inc. also agreed to retain an independent consultant to conduct a review of residential foreclosure actions pending at any time during the period from January 1, 2009 through December 31, 2010 for loans serviced by SunTrust Mortgage, Inc., to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and then make any appropriate remediation, reimbursement or adjustment. Under the terms of the Consent Order, SunTrust Bank and SunTrust Mortgage, Inc. also agreed, among other things, to: (a) strengthen the coordination of communications between borrowers and SunTrust Mortgage, Inc. concerning ongoing loss mitigation and foreclosure activities; (b) submit a plan to enhance processes for oversight and management of third party vendors used in connection with residential mortgage servicing, loss mitigation and foreclosure activities;

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Notes to Consolidated Financial Statements (Unaudited)-Continued

(c) enhance and strengthen the enterprise wide compliance program with respect to oversight of residential foreclosure loan servicing, loss mitigation and foreclosure activities; (d) ensure appropriate oversight of SunTrust Mortgage, Inc. s activities with respect to Mortgage Electronic Registration System; (e) review and remediate, if necessary, SunTrust Mortgage, Inc. s management information systems for its residential mortgage loan servicing, loss mitigation, and foreclosure activities; (f) improve the training of SunTrust Mortgage, Inc. officers and staff concerning applicable law, supervisory guidance and internal procedures concerning residential mortgage servicing, loss mitigation and foreclosure activities, including the single point of contact for foreclosure and loss mitigation; (g) enhance and strengthen the enterprise wide risk management program with respect to oversight of residential foreclosure loan servicing, loss mitigation and foreclosure activities; and (h) enhance and strengthen the internal audit program with respect to residential foreclosure loan servicing, loss mitigation and foreclosure activities. The full text of the Consent Order is available on the Federal Reserve s website.

The Company completed an internal review of SunTrust Mortgage, Inc. s residential foreclosure processes, and as a result of the review, steps have been taken to improve upon those processes. An independent consultant review will also be performed as required by the Consent Order, and until the results of that review are known, the Company cannot reasonably estimate financial reimbursements or adjustments. As a result of the Federal Reserve s review of the Company s residential mortgage loan servicing and foreclosure processing practices that preceded the Consent Order, the Federal Reserve announced that it believed monetary sanctions would be appropriate and it planned to announce monetary sanctions. The Federal Reserve has not made any further announcements nor has it provided the Company with information related to timing or amount of these potential monetary sanctions. Consequently, the amount cannot be reasonably estimated, and therefore, no accrual has been made.

Note 15 - Business Segment Reporting

The Company has six business segments used to measure business activities: Retail Banking, Diversified Commercial Banking, CRE, CIB, Mortgage, and W&IM with the remainder in Corporate Other and Treasury. The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. For a further discussion concerning SunTrust s business segments, see Note 22, Business Segment Reporting , to the Consolidated Financial Statements in the Company s 2010 Annual Report on Form 10-K.

Because the business segment results are presented based on management accounting practices, the transition to the consolidated results, which are prepared under U.S. GAAP, creates certain differences which are reflected in Reconciling Items.

For business segment reporting purposes, the basis of presentation in the accompanying discussion includes the following:

Net interest income All net interest income is presented on a FTE basis. The revenue gross-up has been applied to tax-exempt loans and investments to make them comparable to other taxable products. The segments have also been matched maturity funds transfer priced, generating credits or charges based on the economic value or cost created by the assets and liabilities of each segment. The mismatch between funds credits and funds charges at the segment level resides in Reconciling Items. The change in the matched maturity funds mismatch is generally attributable to the corporate balance sheet management strategies.

Provision for credit losses - Represents net charge-offs by segment. The difference between the segment net charge-offs and the consolidated provision for credit losses is reported in Reconciling Items.

Provision/(benefit) for income taxes - Calculated using a nominal income tax rate for each segment. This calculation includes the impact of various income adjustments, such as the reversal of the FTE gross up on tax-exempt assets, tax adjustments, and credits that are unique to each business segment. The difference between the calculated provision/(benefit) for income taxes at the segment level and the consolidated provision/(benefit) for income taxes is reported in Reconciling Items.

The segment s financial performance is comprised of direct financial results as well as various allocations that for internal management reporting purposes provide an enhanced view of analyzing the segment s financial performance. The internal allocations include the following:

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Operational Costs Expenses are charged to the segments based on various statistical volumes multiplied by activity based cost rates. As a result of the activity based costing process, planned residual expenses are also allocated to the segments. The recoveries for the majority of these costs are in the Corporate Other and Treasury segment.

Support and Overhead Costs Expenses not directly attributable to a specific segment are allocated based on various drivers (e.g., number of full-time equivalent employees and volume of loans and deposits). The recoveries for these allocations are in Corporate Other and Treasury.

Sales and Referral Credits Segments may compensate another segment for referring or selling certain products. The majority of the revenue resides in the segment where the product is ultimately managed.

The application and development of management reporting methodologies is a dynamic process and is subject to periodic enhancements. The implementation of these enhancements to the internal management reporting methodology may materially affect the results disclosed for each segment with no impact on consolidated results. Whenever significant changes to management reporting methodologies take place, the impact of these changes is quantified and prior period information is reclassified wherever practicable.

	Three Months Ended March 31, 2011								
(Dollars in millions)	Retail Banking	Diversified Commercial Banking	CRE	CIB	Mortgage	W&IM	Corporate Other and Treasury	Reconciling Items	Consolidated
Average total assets	**$40,544**	**$24,702**	**$8,913**	**$21,396**	**$34,538**	**$8,901**	**$33,123**	**$949**	**$173,066**
Average total liabilities	**76,298**	**21,397**	**1,471**	**17,480**	**3,693**	**13,406**	**16,272**	**(58)**	**149,959**
Average total equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23,107**	**23,107**
Net interest income	**$623**	**$147**	**$35**	**$116**	**$125**	**$105**	**$137**	**($39)**	**$1,249**
FTE adjustment	**-**	**25**	**-**	**-**	**-**	**-**	**2**	**1**	**28**
Net interest income (FTE)[1]	**623**	**172**	**35**	**116**	**125**	**105**	**139**	**(38)**	**1,277**
Provision for credit losses[2]	**216**	**8**	**108**	**(1)**	**223**	**17**	**-**	**(124)**	**447**
Net interest income after provision for credit losses	**407**	**164**	**(73)**	**117**	**(98)**	**88**	**139**	**86**	**830**
Noninterest income	**263**	**58**	**27**	**176**	**81**	**215**	**77**	**(14)**	**883**
Noninterest expense	**628**	**114**	**109**	**147**	**252**	**237**	**(9)**	**(13)**	**1,465**
Income/(loss) before provision/(benefit) for income taxes	**42**	**108**	**(155)**	**146**	**(269)**	**66**	**225**	**85**	**248**
Provision/(benefit) for income taxes[3]	**16**	**39**	**(77)**	**53**	**(103)**	**22**	**78**	**33**	**61**
Net income/(loss) including income attributable to noncontrolling interest	**26**	**69**	**(78)**	**93**	**(166)**	**44**	**147**	**52**	**187**
Net income attributable to noncontrolling interest	**-**	**-**	**-**	**-**	**-**	**5**	**2**	**-**	**7**

Net income/(loss)	**$26**	**$69**	**($78)**	**$93**	**($166)**	**$39**	**$145**	**$52**	**$180**

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	Three Months Ended March 31, 2010								
(Dollars in millions)	Retail Banking	Diversified Commercial Banking	CRE	CIB	Mortgage	W&IM	Corporate Other and Treasury	Reconciling Items	Consolidated
Average total assets	$38,513	$25,149	$11,927	$18,851	$34,702	$9,219	$32,712	$356	$171,429
Average total liabilities	73,789	21,554	1,961	14,266	3,325	11,962	21,906	328	149,091
Average total equity	-	-	-	-	-	-	-	22,338	22,338
Net interest income	$608	$130	$43	$83	$102	$95	$120	($9)	$1,172
FTE adjustment	-	27	-	-	-	-	3	-	30
Net interest income (FTE)[1]	608	157	43	83	102	95	123	(9)	1,202
Provision for credit losses[2]	284	24	70	29	401	13	-	41	862
Net interest income after provision for credit losses	324	133	(27)	54	(299)	82	123	(50)	340
Noninterest income	276	52	21	113	47	186	8	(5)	698
Noninterest expense	601	116	93	110	254	222	(31)	(4)	1,361
Income/(loss) before provision/(benefit) for income taxes	(1)	69	(99)	57	(506)	46	162	(51)	(323)
Provision/(benefit) for income taxes[3]	(1)	25	(57)	21	(192)	17	43	(20)	(164)
Net income/(loss) including income attributable to noncontrolling interest	-	44	(42)	36	(314)	29	119	(31)	(159)
Net income attributable to noncontrolling interest	-	-	-	-	-	-	2	-	2
Net income/(loss)	$-	$44	($42)	$36	($314)	$29	$117	($31)	($161)

[1] Net interest income is FTE and is presented on a matched maturity funds transfer price basis for the line of business.

[2] Provision for credit losses represents net charge-offs for the segments.

[3] Includes regular income tax provision/(benefit) and taxable-equivalent income adjustment reversal.

Note 16 - Accumulated Other Comprehensive Income

Comprehensive income/(loss) was calculated as follows:

Three Months Ended

March 31

(Dollars in millions)	**2011**	2010
Comprehensive income:		
Net income/(loss)	**$180**	($161)
OCI:		
Change in unrealized gains/(losses) on securities, net of taxes	**(69)**	39
Change in unrealized gains/(losses) on derivatives, net of taxes	**(125)**	122
Change related to employee benefit plans	**3**	75
Total comprehensive income/(loss)	**($11)**	$75

The components of AOCI were as follows:

(Dollars in millions)	**March 31 2011**	December 31 2010
Unrealized net gain on AFS securities	**$1,457**	$1,526
Unrealized net gain on derivative financial instruments	**407**	532
Employee benefit plans	**(439)**	(442)
Total AOCI	**$1,425**	$1,616

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Item 2. 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 future levels of net interest margin, regulatory assessments, credit quality, net charge-offs, NPLs and nonperforming assets, loan repurchase requests, realization of deferred tax assets, OTTI, loan balances, deposit balances, and dividends, 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, potentially, probably, projects, outlook or similar expressions or future conditional verbs such as may, will, should, would, an statements are based upon the current beliefs and expectations of 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 II 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; recent levels of market volatility are unprecedented; we are subject to capital adequacy 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; 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; 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; 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 may continue to suffer increased losses in our loan portfolio despite enhancement of our underwriting policies; 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 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; we rely on other companies to provide key components of our business infrastructure; the soundness of other financial institutions could adversely affect us; 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; we are subject to certain litigation, and our expenses related to this litigation may adversely affect our results; 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 reducing margins; future legislation could harm our competitive position; 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 accounts for most of our revenue and could affect our liquidity and ability to pay dividends; significant legal actions could subject us to substantial uninsured liabilities; recently declining values of real estate, increases in unemployment, and the related effects on local economies may increase our credit losses, which would negatively affect our financial results; deteriorating credit quality, particularly in real estate loans, has adversely impacted us and may continue to adversely impact us; 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; disruptions in our ability to access global capital markets may negatively affect our capital resources and liquidity; in 2009 and 2010, credit rating agencies downgraded the credit ratings of SunTrust Bank and SunTrust Banks, Inc., and these downgrades and any subsequent downgrades could adversely impact the price and liquidity of our securities and could have an impact on our businesses and results of operations; 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 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.

INTRODUCTION

This MD&A is intended to 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 and us in this narrative, we mean SunTrust Banks, Inc. and subsidiaries (consolidated).

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.

The following analysis of our financial performance for the three months ended March 31, 2011 should be read in conjunction with the financial statements, notes to consolidated financial statements and other information contained in this document and our 2010 Annual Report on Form 10-K. Certain reclassifications have been made to prior year financial statements and related information to conform them to the 2011 presentation. In the MD&A, net interest income and the net interest margin and efficiency ratios are presented on an FTE and annualized basis. The FTE basis adjusts for the tax-favored status of net interest 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. In addition, we present certain non-GAAP metrics to assist investors in understanding management s view of particular financial measures, as well as to align presentation of these financial measures with peers in the industry who may also provide a similar presentation. Reconcilements for all non-U.S. GAAP measures are provided below in Table 1, Selected Quarterly Financial Data.

EXECUTIVE OVERVIEW

Economic and regulatory

The economic recovery continued at a moderate pace during the first three months of 2011, with the labor market continuing to show gradual signs of firming. In addition, business investments in capital expenditures expanded and consumer spending rose modestly. However, the U.S. housing market continued to be weak due to a large inventory of foreclosed or distressed properties and home prices remaining under pressure. Also during the first three months of 2011, energy and commodity prices increased, which created renewed uncertainty regarding the strength and sustainability of the economic recovery. Amidst this backdrop, the Federal Reserve maintained a forecast for gradual economic recovery through 2011 and 2012 and for unemployment to decline slowly, but remain elevated through the end of 2012. The Federal Reserve reaffirmed that it will maintain key interest rates at record lows and its intention to purchase $600 billion of U.S. Treasury securities through the middle of 2011 in an attempt to encourage stronger economic growth.

Regulatory and financial reform continued during the first quarter, as the regulatory agencies proposed new rules mandated by the Dodd-Frank Act and also finalized previously proposed rules. In February, the FDIC finalized its rules related to the calculation of our deposit insurance assessment. The rules that became effective on April 1, 2011 require us to base our deposit insurance assessment calculation on our total average assets less average tangible equity, rather than domestic deposits. In addition, the FDIC revised the overall pricing structure for large banks, which will result in assessment rates being affected by specific risk characteristics, such as asset concentrations, liquidity, and asset quality. Other rules and regulations impacting proprietary trading, market risk, derivative trading, interchange fees, and mortgage servicing remain in various stages of implementation and promulgation.

Capital

During the first quarter, the Federal Reserve completed its CCAR for the nineteen largest U.S. bank holding companies. Upon completion of their review, the Federal Reserve did not object to the capital plan that we submitted. As a result of the CCAR completion, we initiated and completed certain elements of our capital plan, including public offerings of $1.0 billion of common stock and $1.0 billion of senior debt. In addition, we used the proceeds from those offerings, as well as other available funds, to repurchase $3.5 billion of Fixed Rate Cumulative Preferred Stock, Series C and $1.4 billion of Fixed Rate Cumulative Preferred

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Stock, Series D that was issued to the U.S. Treasury under the TARP s CPP in November and December 2008. The repurchase of the preferred stock will eliminate approximately $265 million in annual preferred dividend payments and discount accretion that has been negatively affecting net income/(loss) available to common shareholders the past two years. In addition, by keeping our shareholders best interest in mind and demonstrating a patient and deliberate approach to TARP repayment, we believe that we successfully lessened the impact to our shareholders by issuing less common stock than what would have been required had we chosen to repay TARP earlier.

Our capital remained strong at March 31, 2011, and the level of common equity was significantly bolstered during the quarter as a result of the successful common equity raise. Our Tier 1 common equity ratio increased to 9.05% compared to 8.08% at December 31, 2010. Meanwhile, as a result of the change in our equity mix due to the repurchase of the preferred stock issued to the U.S. Treasury, our Tier 1 capital ratio declined to 11.00%, compared to 13.67% at December 31, 2010. At December 31, 2010, our Tier 1 capital ratio, excluding TARP, was 10.08%. Our total capital ratio was 13.92% compared to 16.54% at December 31, 2010. Overall, our capital remains well above the requirements to be considered well capitalized according to current and proposed regulatory standards. With strong capital, ample liquidity, and improved earnings, we believe that we are well-positioned for long-term growth. At the same time, we recognize the value of returning capital to shareholders, so in that regard, as appropriate and in due time, we plan to increase the common dividend. We expect that our Board will evaluate a modest dividend increase in the latter part of 2011, if our financial results and the economy continue to improve. See additional discussion of our liquidity and capital position in the Liquidity Risk and Capital Resources sections of this MD&A.

Financial performance

Our operating performance continued to improve during the first quarter, and we continued to build on the positive momentum created in 2010. Our continued focus on serving our clients and managing our core business to drive improved bottom line results, together with improved credit quality, resulted in net income available to common shareholders during the current quarter of $38 million, or $0.08 per average common diluted share, which compares favorably to the net loss available to common shareholders of $229 million, or $0.46 per average common diluted share in 2010. Included in net income available to common shareholders during the three months ended March 31, 2011 was a $74 million non-cash charge related to the accelerated accretion associated with the repurchase of preferred stock issued to the U.S. Treasury. Excluding this charge, EPS would have been $0.22 per average common diluted share, essentially flat compared to the fourth quarter of 2010. The current quarter s results were driven by a lower loan loss provision and lower noninterest expenses compared to the previous quarter, offsetting a decline in fee income, all of which were consistent with our expectations. As we look towards the future, we are acutely focused on our client-centric strategies which are aimed at taking advantage of growth opportunities in our markets that we believe will be the catalyst for further improvement in profitability. We are continuing to invest in teammate engagement, client loyalty, and growth in primary relationships that we believe will drive market share growth and, ultimately, higher levels of profitability and improved financial performance for our shareholders.

Asset quality improvement was broad-based and continued a multi-quarter trend with improvements in the provision for credit losses, net charge-offs, NPLs, nonperforming assets, and early stage delinquencies. At March 31, 2011, the ALLL remains elevated by historical standards at 2.49% of total loans, but declined 9 basis points compared to December 31, 2010, in part due to a $120 million decrease in the ALLL due to improved credit quality of the loan portfolio. Net charge-offs declined 8% compared to the fourth quarter of 2010. We currently expect second quarter 2011 net charge-offs to be relatively stable compared to the first quarter, with the potential for more improvement in the second half of the year if declines in early stage delinquencies in residential and consumer loans continue. The improvement in asset quality drove an 11% decrease in the provision for loan losses compared to the fourth quarter of 2010 and a 49% decrease compared to the first quarter of 2010. Total NPLs continued the downward trend seen during 2010 with a first quarter 2011 decline of 3% from December 31, 2010 as a result of reduced inflows into nonaccrual and a transfer of $57 million of NPLs to LHFS. We expect NPLs to continue to decline in the second quarter of 2011 subject to economic conditions and credit quality trends remaining stable or improving. In addition, OREO declined 10% during the quarter as we continued to opportunistically dispose of properties once we had clear title. Our accruing restructured loan portfolio, which is primarily mortgage and consumer loans, remained relatively static compared to December 31, 2010, while the portfolio continued to exhibit strong payment performance with 87% current on principal and interest payments at March 31, 2011 compared to 86% at December 31, 2010. See additional discussion of credit and asset quality in the Loans, Allowance for Credit Losses, and Nonperforming Assets, sections of this MD&A.

Average loans increased modestly during the first quarter compared to the fourth quarter of 2010, with decreases in certain commercial real estate, commercial construction, and residential real estate categories being offset by increases in commercial and industrial and consumer loans. Even though the total average loan balances have not increased significantly, our risk profile continues to improve, as a result of the decline in higher-risk loan portfolios offset by targeted growth in certain lower-risk portfolios, such that higher-risk loans comprised only 10% of our entire loan portfolio and lower-risk government guaranteed loans represented 8% of the portfolio as of March 31, 2011. Despite continued soft loan demand, we remain focused on extending credit to qualified borrowers during this uncertain economic landscape. To that end, during the three months ended March 31, 2011, we extended approximately $16.5 billion in new loan originations, commitments, and renewals of commercial, residential, and consumer loans to our clients.

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Client deposit growth continued its positive trajectory, reaching a record high in the first quarter as the positive shift in deposit mix continued with lower-cost deposit increases more than offsetting the decline in higher-cost deposits. Average consumer and commercial deposits increased 1% during the first quarter and 5% compared to the same period in 2010. Average balance increases were driven by increases in lower cost noninterest-bearing demand deposits and money market accounts, partially offset by declines in higher cost CDs. Due to the growth seen in core deposits, our liquidity has been enhanced, enabling 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 continue to believe that a portion of the low-cost deposit growth is attributable to clients desires for having increased liquidity, we also believe that the growth is a direct result of investments that we have made to enhance our clients banking experience as well as a result of our superior client service that is driving client loyalty.

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 noninterest income, lower provision for credit losses, and controlled operating expenses compared to a year ago. Compared to the fourth quarter of 2010, operating trends were fairly stable, as improvement in credit quality, expansion of net interest margin, and a reduction in expenses offset lower fee income due to market-sensitive factors. Total revenue, on an FTE basis, increased 14% compared to the prior year due to stable earning assets, increases in certain fee based revenue, and expanded net interest margin. However, total revenue, on an FTE basis, declined by 7% compared to the fourth quarter of 2010 due to declines in market-driven and cyclical fee income and fewer business days during the current quarter. Net interest income, on an FTE basis, increased 6%, compared to the three months ended March 31, 2010. The increase in net interest income was due to lower funding costs, improved funding mix, and a reduction in long-term debt. As a result, our net interest margin increased to 3.53% for the three months ended March 31, 2011 from 3.32% during the same period in 2010. Compared to the fourth quarter of 2010, net interest income, on an FTE basis, declined by 1% due to fewer days; however, the net interest margin increased by 9 basis points, marking the eighth consecutive quarter of expansion. The sequential quarter increase was driven by a combination of lower average earning assets, coupled with higher yields on earning assets and lower rates paid on interest-bearing liabilities. Noninterest income increased 27% compared to the same quarter in 2010, most notably due to increases in trading income, securities gains, and lower mortgage repurchase costs, offset by lower service charges on deposit accounts. Compared to the fourth quarter of 2010, noninterest income was down 14%, primarily driven by lower trading account profits and commissions, mortgage production, and investment banking income. Noninterest expense increased 8% during the current quarter when compared to the same quarter in 2010, driven primarily by higher personnel costs due to higher compensation from improved revenue generation, as well as the hiring of additional teammates, primarily in mortgage origination and in client service and support roles. However, noninterest expense declined by 5% compared to the fourth quarter of 2010, as seasonally higher employee benefits costs were offset by reductions in credit-related expenses, marketing expenses, and outside processing costs. See additional discussion of our financial performance in the Consolidated Financial Results section of this MD&A.

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Selected Quarterly Financial Data **Table 1**

(Dollars in millions, except per share data)	Three Months Ended March 31 2011	2010
Summary of Operations		
Interest income	**$1,554**	$1,574
Interest expense	**305**	402
Net interest income	**1,249**	1,172
Provision for credit losses	**447**	862
Net interest income after provision for credit losses	**802**	310
Noninterest income	**883**	698
Noninterest expense	**1,465**	1,361
Net income/(loss) before provision/(benefit) for income taxes	**220**	(353)
Net income attributable to noncontrolling interest	**7**	2
Provision/(benefit) for income taxes	**33**	(194)
Net income/(loss)	**$180**	($161)
Net income/(loss) available to common shareholders	**$38**	($229)
Net interest income - FTE	**$1,277**	$1,202
Total revenue - FTE	**2,160**	1,900
Total revenue - FTE excluding securities gains, net [1]	**2,096**	1,899
Net income/(loss) per average common share:		
Diluted [2]	**0.08**	(0.46)
Diluted excluding effect of accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**0.22**	(0.46)
Basic	**0.08**	(0.46)
Dividends paid per average common share	**0.01**	0.01
Book value per common share	**35.49**	35.40
Tangible book value per common share [3]	**23.79**	22.76
Market price:		
High	**33.14**	28.39
Low	**27.38**	20.16
Close	**28.84**	26.79
Selected Average Balances		
Total assets	**$173,066**	$171,429
Earning assets	**146,786**	146,896
Loans	**115,162**	114,435
Consumer and commercial deposits	**120,710**	115,084
Brokered and foreign deposits	**2,606**	3,433
Total shareholders equity	**23,107**	22,338
Average common shares - diluted (thousands)	**503,503**	498,238
Average common shares - basic (thousands)	**499,669**	494,871
Financial Ratios (Annualized)		
ROA	**0.42%**	(0.38)%
ROA less net unrealized securities (gains)/losses [4]	**0.30**	(0.42)
ROE	**0.84**	(5.34)
Return on average realized common shareholders equity [5]	**(0.35)**	(5.93)
Net interest margin - FTE	**3.53**	3.32
Efficiency ratio [6]	**67.83**	71.60
Tangible efficiency ratio [7]	**67.32**	70.91
Total average shareholders equity to total average assets	**13.35**	13.03
Tangible equity to tangible assets [8]	**7.87**	9.86
Capital Adequacy		

Tier 1 common equity	**9.05%**	7.70%
Tier 1 capital	**11.00**	13.13
Total capital	**13.92**	16.68
Tier 1 leverage	**8.72**	10.95
Reconcilement of Non U.S. GAAP Financial Measures[9]		
Net income/(loss)	**$180**	($161)
Preferred dividends, Series A	**(2)**	(2)
U.S. Treasury preferred dividends and accretion of discount	**(66)**	(66)
Accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**(74)**	-
Net income/(loss) available to common shareholders	**38**	(229)
Securities gains, net of tax	**(40)**	(1)
Coke stock dividend, net of tax	**(13)**	(12)
Net income/(loss) available to common shareholders excluding securities (gains)/losses and the Coke stock dividend	**($15)**	($242)
Net income/(loss) excluding securities gains and Coke stock dividend, net of tax	**$127**	($174)
Net income/(loss) available to common shareholders	**$38**	($229)
Accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**74**	-
Net income/(loss) available to common shareholders excluding accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**$112**	($229)
Net income/(loss) per average common share - diluted	**$0.08**	($0.46)
Effect of accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**0.14**	-
Net income/(loss) per average common share - diluted, excluding effect of accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	**$0.22**	($0.46)

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Selected Quarterly Financial Data, continued **Table 1**

Reconcilement of Non U.S. GAAP Financial Measures[9]	Three Months Ended March 31 2011	2010
Net interest income	**$1,249**	$1,172
FTE adjustment	**28**	30
Net interest income - FTE	**1,277**	1,202
Noninterest income	**883**	698
Total revenue - FTE	**2,160**	1,900
Securities gains, net	**(64)**	(1)
Total revenue - FTE excluding securities gains, net [1]	**$2,096**	$1,899
Total average assets	**$173,066**	$171,429
Average net unrealized securities gains	**(2,294)**	(1,884)
Average assets less net unrealized securities gains	**$170,772**	$169,545
Total average common shareholders equity	**$18,269**	$17,419
Average AOCI	**(1,530)**	(889)
Total average realized common shareholders equity	**$16,739**	$16,530
ROA	**0.42%**	(0.38)%
Impact of excluding net realized and unrealized securities (gains)/losses and the Coke stock dividend	**(0.12)**	(0.04)
ROA less net unrealized securities (gains)/losses [4]	**0.30%**	(0.42) %
ROE	**0.84%**	(5.34)%
Impact of excluding net realized and unrealized securities (gains)/losses and the Coke stock dividend	**(1.19)**	(0.59)
Return on average realized common shareholders equity[5]	**(0.35)%**	(5.93)%
Efficiency ratio [6]	**67.83%**	71.60%
Impact of excluding amortization of intangible assets other than MSRs	**(0.51)**	(0.69)
Tangible efficiency ratio [7]	**67.32%**	70.91%
Total shareholders equity	**$19,223**	$22,620
Goodwill, net of deferred taxes	**(6,185)**	(6,202)
Other intangible assets including MSRs, net of deferred taxes	**(1,635)**	(1,761)
MSRs	**1,538**	1,641
Tangible equity	**12,941**	16,298
Preferred stock	**(172)**	(4,923)
Tangible common equity	**$12,769**	$11,375
Total assets	**$170,794**	$171,796
Goodwill	**(6,324)**	(6,323)

Other intangible assets including MSRs	**(1,659)**	(1,800)
MSRs	**1,538**	1,641
Tangible assets	**$164,349**	$165,314
Tangible equity to tangible assets [8]	**7.87%**	9.86%
Tangible book value per common share [3]	**$23.79**	$22.76

Tier 1 Capital excluding impact of preferred stock issued to the U.S. Treasury	**As of December 31, 2010**
Tier 1 Capital	**$18,156**
Preferred stock issued to the U.S. Treasury	**4,769**
Tier 1 Capital excluding preferred stock issued to the U.S. Treasury	**$13,387**
Risk Weighted Assets	**$132,819**
Tier 1 Capital ratio excluding impact of preferred stock issued to the U.S. Treasury	**10.08%**

[1]We present total revenue-FTE excluding net securities gains. We believe noninterest income without net securities gains is more indicative of our performance because it isolates income that is primarily client relationship and client transaction driven and is more indicative of normalized operations.

[2]For EPS calculation purposes, the impact of dilutive securities are excluded from the diluted share count during periods in which we recognize a net loss available to common shareholders because the impact would be antidilutive.

[3]We present a tangible book value per common share that excludes the after-tax impact of purchase accounting intangible assets and also excludes preferred stock from tangible equity. We believe this measure is useful to investors because, by removing the effect of intangible assets that result from merger and acquisition activity as well as preferred stock (the level of which may vary from company to company), it allows investors to more easily compare our book value on common stock to other companies in the industry.

[4]We present a return on average assets less net unrealized (gains)/losses on securities. The foregoing numbers primarily reflect adjustments to remove the effects of the securities portfolio which includes our ownership of common shares of Coke. We use this information internally to gauge our actual performance in the industry. We believe that the return on average assets less the net unrealized securities (gains)/losses is more indicative of our return on assets because it more accurately reflects the return on the assets that are related to our core businesses which are primarily client relationship and client transaction driven. The return on average assets less net unrealized gains on securities is computed by dividing annualized net income/(loss), excluding securities (gains)/losses and the Coke stock dividend, net of tax, by average assets less net unrealized securities (gains)/losses.

[5]We believe that the return on average realized common shareholders equity is more indicative of our return on equity because the excluded equity relates primarily to the holding of a specific security. The return on average realized common shareholders equity is computed by dividing annualized net income/(loss) available to common shareholders, excluding securities (gains)/losses and the Coke stock dividend, net of tax, by average realized common shareholders equity.

[6]Computed by dividing noninterest expense by total revenue - FTE. The FTE basis adjusts for the tax-favored status of net interest 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.

[7]We present a tangible efficiency ratio which excludes the amortization of intangible assets other than MSRs. We believe this measure is useful to investors because, by removing the effect of these intangible asset costs (the level of which may vary from company to company), it allows investors to more easily compare our efficiency to other companies in the industry. This measure is utilized by us to assess our efficiency and that of our lines of business.

[8]We present a tangible equity to tangible assets ratio that excludes the after-tax impact of purchase accounting intangible assets. We believe this measure is useful to investors because, by removing the effect of intangible assets that result from merger and acquisition activity (the level of which may vary from company to company), it allows investors to more easily compare our capital adequacy to other companies in the industry. This measure is used by us to analyze capital adequacy.

[9]Certain amounts in this schedule are presented net of applicable income taxes, which are calculated based on each subsidiary s federal and state tax rates and laws. In general, the federal marginal tax rate is 35%, but the state marginal tax rates range from 1% to 8% in accordance with the subsidiary s income tax filing requirements with various tax authorities. In addition, the effective tax rate may differ from the federal and state marginal tax rates in certain cases where a permanent difference exists.

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Net Interest Margin **Table 2**

	Three Months Ended						Increase/(Decrease) From	
	March 31, 2011			March 31, 2010			Prior Year Quarter	
(Dollars in millions; yields on taxable-equivalent basis)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/Rates
Assets								
Loans:[1]								
Real estate residential mortgage 1-4 family	**$29,427**	**$369**	**5.01%**	$28,535	$397	5.56%	$892	(0.55)%
Real estate construction	**2,487**	**24**	**3.95**	4,078	34	3.44	(1,591)	0.51
Real estate home equity lines	**14,571**	**121**	**3.37**	15,157	125	3.33	(586)	0.04
Real estate commercial	**13,514**	**137**	**4.10**	15,105	151	4.05	(1,591)	0.05
Commercial - FTE[2]	**33,925**	**472**	**5.64**	33,094	449	5.50	831	0.14
Credit card	**1,013**	**21**	**8.13**	1,067	23	8.69	(54)	(0.56)
Consumer - direct	**6,723**	**74**	**4.49**	5,254	53	4.11	1,469	0.38
Consumer - indirect	**9,473**	**114**	**4.89**	6,697	101	6.10	2,776	(1.21)
Nonaccrual[5]	**4,029**	**8**	**0.77**	5,448	11	0.83	(1,419)	(0.06)
Total loans	**115,162**	**1,340**	**4.72**	114,435	1,344	4.76	727	(0.04)
Securities AFS:								
Taxable	**23,705**	**185**	**3.12**	24,779	195	3.15	(1,074)	(0.03)
Tax-exempt - FTE[2]	**549**	**7**	**5.54**	910	12	5.40	(361)	0.14
Total securities AFS - FTE	**24,254**	**192**	**3.17**	25,689	207	3.23	(1,435)	(0.06)
Funds sold and securities purchased under agreements to resell	**1,064**	**-**	**0.01**	882	-	0.11	182	(0.10)
LHFS	**2,726**	**28**	**4.13**	3,248	33	4.09	(522)	0.04
Interest-bearing deposits	**22**	**-**	**0.13**	26	-	0.28	(4)	(0.15)
Interest earning trading assets	**3,558**	**22**	**2.49**	2,616	20	3.07	942	(0.58)
Total earning assets	**146,786**	**1,582**	**4.37**	146,896	1,604	4.43	(110)	(0.06)
ALLL	**(2,852)**			(3,083)			231	
Cash and due from banks	**6,485**			4,408			2,077	
Other assets	**17,699**			18,690			(991)	
Noninterest earning trading assets	**2,654**			2,634			20	
Unrealized gains on securities AFS, net	**2,294**			1,884			410	
Total assets	**$173,066**			$171,429			$1,637	
Liabilities and Shareholders Equity								
Interest-bearing deposits:								
NOW accounts	**$25,370**	**$11**	**0.17%**	$25,593	$17	0.27%	($223)	(0.10)%
Money market accounts	**42,603**	**48**	**0.46**	36,250	61	0.67	6,353	(0.21)
Savings	**4,266**	**1**	**0.13**	3,856	2	0.24	410	(0.11)
Consumer time	**12,774**	**51**	**1.61**	14,417	70	1.97	(1,643)	(0.36)
Other time	**7,417**	**33**	**1.78**	10,448	56	2.18	(3,031)	(0.40)
Total interest-bearing consumer and commercial deposits	**92,430**	**144**	**0.63**	90,564	206	0.92	1,866	(0.29)
Brokered deposits	**2,347**	**25**	**4.36**	3,005	27	3.61	(658)	0.75
Foreign deposits	**259**	**-**	**0.15**	428	-	0.10	(169)	0.05
Total interest-bearing deposits	**95,036**	**169**	**0.72**	93,997	233	1.01	1,039	(0.29)
Funds purchased	**1,114**	**-**	**0.18**	1,416	1	0.17	(302)	0.01
Securities sold under agreements to repurchase	**2,302**	**1**	**0.16**	1,980	-	0.10	322	0.06
Interest-bearing trading liabilities	**930**	**8**	**3.34**	736	6	3.38	194	(0.04)
Other short-term borrowings	**2,760**	**3**	**0.41**	2,853	3	0.45	(93)	(0.04)
Long-term debt	**13,806**	**124**	**3.64**	17,581	159	3.66	(3,775)	(0.02)
Total interest-bearing liabilities	**115,948**	**305**	**1.07**	118,563	402	1.38	(2,615)	(0.31)
Noninterest-bearing deposits	**28,280**			24,520			3,760	

Other liabilities	**3,955**		4,222		(267)	
Noninterest-bearing trading liabilities	**1,776**		1,786		(10)	
Shareholders equity	**23,107**		22,338		769	
Total liabilities and shareholders equity	**$173,066**		$171,429		$1,637	
Interest Rate Spread		**3.30%**		3.05%		0.25%
Net Interest Income - FTE[3]	**$1,277**		$1,202		$75	
Net Interest Margin[4]		**3.53%**		3.32%		0.21%

[1]Interest income includes loan fees of $39 million and $38 million for the three month periods ended March 31, 2011 and March 31, 2010, respectively. Income on nonaccrual 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 $28 million and $30 million for the three month periods ended March 31, 2011 and March 31, 2010, respectively.

[3]The Company obtained derivative instruments to manage the Company s interest-sensitivity position that increased net interest income $154 million and $156 million in the three month periods ended March 31, 2011 and March 31, 2010, respectively.

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

[5]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 for all periods presented.

Net Interest Income/Margin

Net interest income, on an FTE basis, was $1.3 billion for the first quarter of 2011, an increase of $75 million, or 6%, from the first quarter of 2010. This increase was driven mainly by a continued positive trend in net interest margin, which increased 21 basis points

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to 3.53% in the first quarter of 2011 from 3.32% in the first quarter of 2010. Earning asset yields declined 6 basis points compared to first quarter 2010 from 4.43% to 4.37%, but the cost of interest-bearing liabilities decreased 31 basis points over the same period. The biggest contributors to the increase in net interest margin were the growth in lower-cost deposits, specifically demand deposit and money market accounts, while higher-cost time deposits declined. We currently expect margin to be relatively stable for the second quarter of 2011. Risks to this expectation include the potential impacts of a prolonged low rate environment, yield curve flattening, an unfavorable shift in deposit mix and volume, and loan pricing, while opportunities include continued low cost deposit growth and re-pricing, further steepening of the yield curve, and lower nonperforming assets.

Average earning assets decreased $110 million compared to the first quarter of 2010, and yields decreased slightly compared to the same quarter in the prior period. Average loans increased $727 million, or 1%, compared to the first quarter of 2010. The increase in loans was primarily attributable to increases of $2.8 billion, or 41%, in consumer-indirect loans, driven by purchases of high quality auto loan portfolios, and $1.5 billion, or 28%, in higher yielding consumer-direct loans, related to an increase in government-guaranteed student loans. These increases were partially offset by declines of $1.6 billion, or 39%, in real estate construction and $1.6 billion, or 11%, in commercial real estate, both as a result of our targeted efforts to reduce exposure to certain higher-risk loans. Average securities AFS decreased $1.4 billion, or 6%, due primarily to the sale of lower yielding U.S. Treasury and agency securities of $1.2 billion. 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. Average interest earning trading assets increased $942 million, or 36%, in the first quarter of 2011 compared to the first quarter of 2010, but the additional assets yields were lower compared to the assets replaced from the prior year as a result of a change in market spreads.

Our loan portfolio yielded 4.72% for the first quarter, down 4 basis points from first quarter 2010. 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 March 31, 2011, the outstanding notional balance of swaps was $14.4 billion, which qualified as cash flow hedges on variable rate commercial loans, compared to $16.4 billion as of March 31, 2010. Swap income remained stable at $154 million in the first quarter of 2011 compared to $156 million in the first quarter of 2010. The total loan yield decline when comparing the three months ended March 31, 2011 to the same period in 2010 was related to the yield declines in real estate 1-4 family and consumer-indirect loan portfolios, which was driven by run-off of higher rate loans being replaced with lower rate government guaranteed loans.

Average interest-bearing liabilities declined $2.6 billion, or 2%, from the first quarter of 2010 as a result of significant declines in long-term debt partially offset by increases in interest-bearing deposits. Total average consumer and commercial deposits increased $5.6 billion, or 5%, in the first quarter of 2011 compared to the first quarter of 2010. This growth consisted of lower-cost deposits, including $6.4 billion, or 18%, in money market accounts, and $3.8 billion, or 15%, in demand deposits, partially offset by a decline of $4.7 billion, or 19%, in higher-cost time deposits. This growth in lower-cost deposits was the result of marketing campaigns, competitive pricing and clients increased preference for more liquid products. The overall growth in consumer and commercial deposits allowed for a reduction in other higher-cost funding sources, including $3.8 billion of long-term debt and $658 million of brokered deposits. The growth in lower-cost deposits and decline in higher-cost deposits and wholesale funding resulted in a 31 basis point decline in rates paid on interest-bearing liabilities compared to the same quarter in the prior year.

During the first quarter of 2011, the interest rate environment was characterized by flat short- and medium-term rates and lower long-term rates, resulting in a flatter yield curve versus the first quarter of 2010. More specifically, the Fed funds target rate averaged 0.25%, unchanged from first quarter 2010, the Prime rate averaged 3.25%, unchanged from first quarter 2010, one-month LIBOR averaged 0.26%, an increase of 3 basis points, three-month LIBOR averaged 0.31%, an increase of 5 basis points, five-year swaps averaged 2.32%, a decrease of 38 basis points, and ten-year swaps averaged 3.54%, a decrease of 24 basis points.

Foregone interest income from NPLs reduced net interest margin by 17 basis points for the first quarter of 2011, compared to 23 basis points in the first quarter of 2010, as average nonaccrual loans decreased $1.4 billion, or 26% from the first quarter of 2010. 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. Table 2 contains more detailed information concerning average balances, yields earned, and rates paid.

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Noninterest Income **Table 3**

(Dollars in millions)	Three Months Ended March 31 2011	2010	% Change[1]
Service charges on deposit accounts	**$163**	$196	(17)%
Other charges and fees	**126**	129	(2)
Card fees	**100**	87	15
Trust and investment management income	**135**	122	11
Retail investment services	**58**	47	23
Mortgage production related loss	**(1)**	(31)	97
Mortgage servicing related income	**72**	70	3
Investment banking income	**67**	56	20
Trading account profits/(losses) and commissions	**52**	(7)	NM
Net securities gains	**64**	1	NM
Other noninterest income	**47**	28	68
Total noninterest income	**$883**	$698	27%

[1]NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest Income

Noninterest income increased by $185 million, or 27%, compared to the three months ended March 31, 2010, due to broad-based growth in core consumer and commercial fee-based categories, including trust and investment management income, card fees, investment banking, and retail investment services, each of which grew by more than $10 million and by double digit percentages. Additionally, higher net gains on the sale of investment securities, improved trading income, and lower mortgage production losses contributed to the increase. However, the overall increase was partially offset by lower service charges on deposit accounts due primarily to implementation of required regulatory driven product changes.

Service charges on deposit accounts decreased by $33 million, or 17%, compared to the three months ended March 31, 2010. The decreases were attributable to 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 charged to our clients. The voluntary changes and the Regulation E impact began during the third quarter of 2010; therefore, they impacted our current quarter results but were not applicable to the first quarter of 2010 results.

Card fees increased by $13 million, or 15%, compared to the three months ended March 31, 2010, primarily due to an increase in 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. We continue to monitor the status of the pending interchange price restrictions currently scheduled to be implemented in mid-2011. Although the Federal Reserve continues to work towards implementation, there is an effort underway in Congress to postpone the implementation pending future study of the issue. Although the ultimate outcome of the pending interchange price restrictions is still unknown, if the rules become effective in 2011, as currently proposed, our interchange revenue would decline.

Trust and investment management income increased by $13 million, or 11%, compared to the three months ended March 31, 2010, primarily due to higher market valuations on managed equity assets, partially offset by lower money market mutual fund revenue.

Retail investment services income increased by $11 million, or 23%, compared to the three months ended March 31, 2010, driven by higher recurring brokerage revenue and annuity income.

Mortgage production related loss improved by $30 million, or 97%, compared to the three months ended March 31, 2010, primarily due to a decline in mortgage repurchase costs, partially offset by lower mortgage volume due to higher mortgage interest rates. Reserves for mortgage repurchase costs were $270 million as of March 31, 2011, an increase of $5 million over December 31, 2010. The increase in the reserve was related to an increase in repurchase requests during the quarter, driven primarily by increased agency requests related to the 2007 vintage loans. Repurchase requests can vary significantly from period to period based on the timing of requests from the GSEs. We continue to expect repurchase requests to remain elevated and volatile for the foreseeable future, which could cause us to increase our overall request rate assumption; however, we continue to believe that, over time, seasoning patterns will result in a decline in requests from the higher loss 2006 and

2007 vintages.

Mortgage servicing related income increased by $2 million, or 3%, compared to the three months ended March 31, 2010, as valuation gains, net of hedges, on MSRs in the current period were largely offset by lower servicing fees during the first quarter of 2011. At March 31, 2011, the fair value of MSRs totaled $1.5 billion. This value was based on the overall servicing market at the end of the first quarter and does not explicitly include any incremental cost that may be associated with the April 13th Federal Reserve Consent Order. However, our valuation methodology does assume that the elevated level of mortgage servicing costs that we are currently experiencing remains high for a considerable period of time. We are in the process of evaluating whether there could be additional costs associated with the Consent Order that warrant inclusion in our MSR valuation approach.

Trading account profits/(losses) and commissions increased by $59 million compared to the three months ended March 31, 2010, primarily due to a decrease in valuation losses, net of hedges, on our index-linked CDs and public debt, both carried at fair value, as well as higher valuation gains on illiquid securities. Additionally, core capital markets-related trading income increased slightly when compared to the prior year. Investment banking income increased by $11 million, or 20%, compared to the three months ended March 31, 2010, primarily as a result of higher levels of syndicated finance income.

Net securities gains increased by $63 million compared to the three months ended March 31, 2010, as a result of sales of securities AFS as part of our repositioning of the securities AFS portfolio during the current quarter. See Securities Available for Sale in this MD&A for further discussion regarding our repositioning activity.

Other noninterest income increased by $19 million, or 68%, compared to the three months ended March 31, 2010. The increase was attributable to current quarter gains on private equity investments, impairment charges on leased assets in 2010, and contingent consideration recognized in 2011 from the transfer of money market funds to Federated Investors, Inc.

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Noninterest Expense **Table 4**

(Dollars in millions)	Three Months Ended March 31 **2011**	2010	% Change
Employee compensation	**$618**	$557	11%
Employee benefits	**136**	135	1
Personnel expense	**754**	692	9
Other real estate expense	**69**	46	50
Credit and collection services	**51**	74	(31)
Operating losses	**27**	14	93
Mortgage reinsurance	**7**	9	(22)
Credit-related costs	**154**	143	8
Outside processing and software	**158**	149	6
Net occupancy expense	**89**	91	(2)
Regulatory assessments	**71**	64	11
Equipment expense	**44**	41	7
Marketing and customer development	**38**	34	12
Postage and delivery	**21**	22	(5)
Communications	**16**	16	-
Consulting and legal	**14**	14	-
Amortization of intangible assets	**11**	13	(15)
Net loss/(gain) on debt extinguishment	**(1)**	(9)	(89)
Other expense	**96**	91	6
Total noninterest expense	**$1,465**	$1,361	8%

Noninterest Expense

Noninterest expense increased by $104 million, or 8%, compared to the three months ended March 31, 2010, driven primarily by a rise in compensation expenses associated with improved revenue generation as well as the hiring of additional teammates, primarily in mortgage origination and in client service and support roles. Also contributing to the increase in noninterest expense were higher credit-related costs, an increase in outside processing and software expense, and an increase in regulatory assessment expenses.

Personnel expenses increased by $62 million, or 9%, compared to the three months ended March 31, 2010. The increase in personnel expenses is primarily attributable to higher incentive compensation related to improved business performance and the previously mentioned increase in teammates.

Credit-related costs increased by $11 million, or 8%, compared to the three months ended March 31, 2010, primarily due to an increase in other real estate expense resulting from net losses on the sale of OREO properties. Additionally, operating losses also increased year over year largely due to higher litigation-related costs. Partially offsetting these increases was a decrease in credit and collection services expenses.

Outside processing and software expenses increased by $9 million, or 6%, compared to the three months ended March 31, 2010, due to increased transaction volumes and investments in various risk management and client service-related technology projects.

Regulatory assessments expense increased by $7 million, or 11%, compared to the three months ended March 31, 2010, primarily as a result of higher average deposit balances. In February, 2011, the FDIC approved a final rule changing the assessment base and the method for calculating the assessment rate that took effect on April 1, 2011. Due to these changes, we expect a modest increase in regulatory assessments expense in the second quarter of 2011. See additional discussion in the Executive Overview section of this MD&A.

Provision for Income Taxes

The provision for income taxes includes both federal and state income taxes. During the three months ended March 31, 2011, the provision for income taxes was $33 million, compared to a tax benefit of $194 million for the same period in 2010. The provision represents a 15.5% effective tax rate for the three months ended March 31, 2011 compared to a (54.7)% effective tax rate for the three months ended March 31, 2010. We calculated income taxes for the three months ended March 31, 2011 and 2010 based on actual year-to-date results. For the three months ended March 31, 2011, the effective tax rate was primarily a result of positive pre-tax earnings adjusted for net favorable permanent tax items, such as interest income from lending to tax-exempt entities and federal tax

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credits from community reinvestment activities. For the three months ended March 31, 2010, the effective tax rate was primarily attributable to the pre-tax loss as well as the aforementioned favorable permanent tax items. See additional discussion related to the provision for income taxes in Note 9, Income Taxes, to the Consolidated Financial Statements.

In determining whether a valuation allowance against our deferred tax assets is necessary, we consider the level of taxable income in prior years to the extent that carrybacks are permitted under current tax law, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. As of March 31, 2011, the cumulative valuation allowance associated with the deferred tax asset for certain state carryforwards was $50 million, unchanged from December 31, 2010. We expect to realize our remaining deferred tax assets over the allowable carryback period or in future years. Therefore, no valuation allowance is required against federal deferred tax assets or the remaining state deferred tax assets, and we estimate that on a consolidated basis, we have a net deferred tax liability at March 31, 2011.

Loans

We report our loan portfolio in three segments: commercial, residential, and consumer. Loans are assigned to these segments based upon the type of borrower, collateral, and/or our underlying credit management processes. Additionally, within each segment, we have identified loan types, or classes, which further identify loans based upon common risk characteristics.

The commercial and industrial class includes loans secured by owner-occupied properties, corporate credit cards, as well as, other wholesale lending activities. Loans that are reported in the commercial real estate and commercial construction classes are based on investor exposures where repayment is largely dependent upon the underlying real estate.

Residential mortgages consist of our core mortgage portfolio secured by 1-4 family homes, mostly prime first-lien loans, and home equity products consist of both first-lien equity lines and closed-end second-lien loans. Residential construction loans include residential lot loans and construction-to-perm loans.

Consumer direct loans consist primarily of nonguaranteed student loans, while consumer indirect loans consist of loans secured by automobiles or recreational vehicles.

Loan Portfolio by Types of Loans **Table 5**

(Dollars in millions)	**March 31, 2011**	December 31, 2010
Commercial loans:		
Commercial & industrial[1]	**$45,080**	$44,753
Commercial real estate	**6,043**	6,167
Commercial construction	**2,109**	2,568
Total commercial loans	**53,232**	53,488
Residential loans:		
Residential mortgages - guaranteed	**4,516**	4,520
Residential mortgages - nonguaranteed[2]	**23,443**	23,959
Home equity products	**16,382**	16,751
Residential construction	**1,208**	1,291
Total residential loans	**45,549**	46,521
Consumer loans:		
Guaranteed student loans	**4,477**	4,260
Other direct	**1,786**	1,722
Indirect	**9,469**	9,499
Credit cards	**419**	485
Total consumer loans	**16,151**	15,966

LHFI	**$114,932**	$115,975
LHFS	**$2,165**	$3,501

[1]Includes $4 million of loans previously acquired from GB&T and carried at fair value at March 31, 2011 and December 31, 2010, respectively.

[2]Includes $453 million and $488 million of loans carried at fair value at March 31, 2011 and December 31, 2010, respectively.

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Loans Held for Investment

LHFI decreased by $1.0 billion, or 1%, during the three months ended March 31, 2011. The decrease was primarily attributable to a decrease in nonguaranteed residential mortgages, home equity products, and commercial construction loans. While the size of the loan portfolio declined slightly, we have continued to make progress in our balance sheet diversification strategy by growing the consumer loan segment of our portfolio, as well as, targeted portions within the commercial loan segment. We have also reduced our exposure to higher risk portions of the portfolio, including second mortgages, construction loans, and high LTV home equity products. We believe that the reduction in higher risk balances and the increase in guaranteed loans continues a significant de-risking of our loan portfolio.

Commercial loans decreased by $256 million, or less than 1%, during the three months ended March 31, 2011. The decline was largely attributable to a decrease in commercial construction loans, largely offset by an increase in commercial and industrial loans. Commercial construction loans decreased by $459 million, or 18%, primarily as a result of our efforts to reduce risk levels by aggressively managing existing construction exposure and significantly limiting new production under tighter underwriting standards. Meanwhile, commercial and industrial loans grew by $327 million, or 1%, as a result of increased asset based lending, middle market lending, and SBA lending. Asset backed lending in particular is one of the areas of growth we have targeted for 2011.

Residential loans decreased by $972 million, or 2%, during the three months ended March 31, 2011, due to current quarter net charge-offs and continued runoff in the higher risk segments of the portfolio, including certain nonguaranteed residential mortgages, home equity products, and residential construction loans. Guaranteed residential mortgages, however, were basically flat during the period.

Consumer loans increased by $185 million, or 1%, during the three months ended March 31, 2011. The increase was primarily attributable to a $217 million, or 5%, increase in guaranteed student loans, partially offset by a $66 million, or 14%, decline in consumer credit card loans.

Asset Quality

Our overall asset quality has improved since December 31, 2010, as net charge-offs, NPLs, and early stage delinquencies have all declined since year-end. Early stage delinquencies, in particular, surpassed our expectations in terms of improvement during the quarter. We continue to expect that additional improvement in early stage delinquencies, particularly in our residential portfolio, will be tied to the health of the general economy, as commercial and consumer delinquency rates are already at historically low levels.

The commercial and industrial loan portfolio continues to perform well, as evidenced by improving trends in our credit quality indicators. Delinquencies and net charge-offs both decreased within this portfolio, while NPLs remained relatively flat.

Despite the increase in commercial real estate NPLs, both early stage delinquencies and net charge-offs declined during the quarter. We continue to believe that this portfolio will perform comparatively well given its composition, the quality of our underwriting, and our ongoing management disciplines. Given the stresses in the commercial real estate market, we have performed a thorough analysis of our commercial real estate portfolio in order to identify loans with an increased risk of default. We believe that our investor-owned portfolio is appropriately diversified by borrower, geography, and property type. We typically underwrite commercial projects to credit standards that are more stringent than historical commercial mortgage-backed securities guidelines. Where appropriate, we have taken prudent actions with the client to strengthen our credit position. These actions reflect market terms and structures and are intended to improve the client s financial ability to perform. Impaired loans are assessed relative to the client s and guarantor s, if any, abilities to service the debt, the loan terms, and the value of the property. These factors are taken into consideration when formulating our ALLL through our credit risk rating and/or specific reserving processes.

Nonperforming commercial construction loans declined significantly during the quarter, as we continue to resolve and work through our remaining exposure to these loans. However, the decline in NPLs was partially attributable to increased charge-off activity related to a few larger projects. We continue to be proactive in our credit monitoring and management processes to provide early warning for problem loans. For example, we use an expanded liquidity and contingency analysis to provide a thorough view of borrower capacity and their ability to service obligations in a steep market decline. We also have strict limits and exposure caps on specific projects and borrowers for risk diversification. Due to the lack of new construction projects and the completion of many that were previously started, the aggregate amount of interest reserves that we are obligated to fund has declined from prior periods and are not considered material relative to total loans outstanding.

The residential mortgages portfolio showed considerable improvement in early stage delinquencies during the quarter, and we managed to reduce NPLs while maintaining fairly stable net charge-offs. Our outlook for the residential mortgage portfolio, based on improving delinquency trends, is for reduced frequency of default over the next few quarters.

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Net charge-offs and early stage delinquencies for the home equity portfolio increased modestly during the quarter, although higher risk balances continued to decline. Runoff in this portfolio has been concentrated in the higher risk portfolios, where no new production has occurred and little to no line availability exists.

The residential construction portfolio showed measurable improvement in terms of declines in early stage delinquencies, NPLs, and net charge-offs. However, net charge-offs are expected to remain elevated and uneven as we work through the remainder of the risk in this portfolio. Further, while there may be some variability, we generally expect this trend of declining NPLs to continue as we aggressively pursue workouts and transition foreclosed assets to OREO, and ultimately, disposition.

For the consumer portfolios, asset quality was stable to modestly improved. Early stage delinquencies, excluding guaranteed student loans, declined during the quarter. Meanwhile, the level of nonperforming consumer loans and net charge-offs remained relatively stable compared to the fourth quarter of 2010.

We believe that our loan portfolio is well diversified by product, client, and geography throughout our footprint. However, our loan portfolio may be exposed to certain concentrations of credit risk which exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. See Note 3, Loans, to the Consolidated Financial Statements for more information.

The following table shows the percentage breakdown of our LHFI portfolio at March 31, 2011 and December 31, 2010 by geographical region.

Loan Types by Geography **Table 6**

	Commercial		Residential		Consumer	
(Dollars in millions)	**March 31, 2011**	December 31, 2010	**March 31, 2011**	December 31, 2010	**March 31, 2011**	December 31, 2010
Geography:						
Central[1]	**28%**	29%	**22%**	22%	**17%**	16%
Florida[2]	**21**	21	**31**	31	**26**	27
MidAtlantic[3]	**28**	28	**35**	35	**33**	33
Other	**23**	22	**12**	12	**24**	24
Total	**100%**	100%	**100%**	100%	**100%**	100%

[1]The Central region includes Alabama, Arkansas, Georgia, Mississippi, and Tennessee.

[2]The Florida region includes Florida only.

[3]The MidAtlantic region includes the District of Columbia, Maryland, North Carolina, South Carolina, and Virginia.

Loans Held for Sale

LHFS decreased by $1.3 billion, or 38%, during the three months ended March 31, 2011. The decline was attributable to a 34% reduction in closed mortgage loan volume versus the fourth quarter of 2010, as higher mortgage interest rates affected demand.

Allowance for Credit Losses

At March 31, 2011, the allowance for credit losses was $2.9 billion, which includes both the ALLL as well as the reserve for unfunded commitments. A rollforward of our allowance for credit losses, along with our summarized credit loss experience, is shown in the table below:

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Summary of Credit Losses Experience **Table 7**

(Dollars in millions)	Three Months Ended March 31 2011	2010	% Change
Allowance for Credit Losses			
Balance - beginning of period	**$3,032**	$3,235	(6)
Provision/(benefit) for unfunded commitments	**(4)**	(15)	73
Provision for loan losses:			
Commercial loans	**108**	215	(50)
Residential loans	**322**	601	(46)
Consumer loans	**21**	61	(66)
Total provision for loan losses	**451**	877	(49)
Charge-offs:			
Commercial loans	**(185)**	(192)	(4)
Residential loans	**(385)**	(608)	(37)
Consumer loans	**(45)**	(62)	(27)
Total charge-offs	**(615)**	(862)	(29)
Recoveries:			
Commercial loans	**29**	23	26
Residential loans	**5**	5	-
Consumer loans	**10**	13	(23)
Total recoveries	**44**	41	7
Net charge-offs	**(571)**	(821)	(30)
Balance - end of period	**$2,908**	$3,276	(11)
Components:			
ALLL	**$2,854**	$3,176	(10)
Unfunded commitments reserve[1]	**54**	100	(46)
Allowance for credit losses	**$2,908**	$3,276	(11)
Average loans	**$115,162**	$114,435	1
Period-end loans outstanding	**114,932**	113,979	1
Ratios:			
Allowance to period-end loans[2,3]	**2.49%**	2.80%	(11)
Allowance to NPLs[2,4]	**72.29**	61.74	17
Allowance to net charge-offs (annualized)[2]	**1.23x**	0.95x	29
Net charge-offs to average loans (annualized)	**2.01%**	2.91%	(31)
Provision for loan losses to average loans (annualized)	**1.59**	3.11	(49)
Recoveries to total charge-offs	**7.2**	4.8	49

[1]The unfunded commitments reserve is separately recorded in other liabilities in the Consolidated Balance Sheets.

[2]This ratio is calculated using the ALLL.

[3]$457 million and $436 million, respectively, of LHFI carried at fair value were excluded from period-end loans in the calculation.

[4] $23 million and $41 million, respectively, of nonperforming loans carried at fair value were excluded from NPLs in the calculation.

Charge-offs

Net charge-offs for the three months ended March 31, 2011 declined by $250 million, or 30%, versus the three months ended March 31, 2010. The decline in net charge-offs occurred across each segment of our loan portfolio and was particularly notable for residential loans. As a percentage of average loans, annualized net charge-offs were 2.01% and 2.91% during the three months ended March 31, 2011 and 2010, respectively, reflecting the improvement in asset quality. We currently expect second quarter 2011 net charge-offs to be relatively stable compared to the first quarter.

Provision for Loan Losses

For the three months ended March 31, 2011, the provision for loan losses decreased by $426 million, or 49%, versus the three months ended March 31, 2010. The decrease in the provision for loan losses was attributable to significantly lower net charge-offs and the decline in the ALLL resulting from improved credit quality.

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ALLL and Reserve for Unfunded Commitments

The allocation of our ALLL by loan segment is shown in the tables below:

Allowance for Loan Losses by Loan Segment **Table 8**

	March 31, 2011			December 31, 2010		
(Dollars in millions)	ALLL	Segment ALLL as a % of total ALLL	Loan segment as a % of total loans	ALLL	Segment ALLL as a % of total ALLL	Loan segment as a % of total loans
Commercial loans	**$ 1,255**	**44%**	**46%**	$ 1,303	44%	46%
Residential loans	**1,440**	**50**	**40**	1,498	50	40
Consumer loans	**159**	**6**	**14**	173	6	14
Total	**$ 2,854**	**100%**	**100%**	$ 2,974	100%	100%

The ALLL decreased by $120 million, or 4%, during the three months ended March 31, 2011, with commercial, residential, and consumer loans-related ALLL decreasing $48 million, $58 million, and $14 million, respectively. The decrease in ALLL was commensurate with the improved credit quality of each segment, including a reduction in higher-risk balances, lower emerging risks in the portfolio, as evidenced by the lower delinquency rates, and the recognition of current quarter net charge-offs absorbing existing risk. Our risk profile continues to improve, such that higher-risk loans comprised only 10% of our entire loan portfolio and lower-risk government guaranteed loans represented 8% of the portfolio as of March 31, 2011. The variables most impacting the ALLL continue to be unemployment, residential real estate property values, and the variability and relative strength of the housing market. At this point in the cycle, we expect the ALLL to continue to trend downward at a pace consistent with improvements in credit quality and overall economic conditions. As of March 31, 2011, the allowance to period-end loans ratio was 2.49%, down 9 basis points from December 31, 2010, consistent with our continued de-risking of our loan portfolio during the quarter. The ratio of the ALLL to total NPLs decreased slightly to 72.29% as of March 31, 2011 from 72.86% as of December 31, 2010. The decrease in this ratio was primarily attributable to the $120 million decrease in the ALLL, partially offset by the decline in NPLs.

The reserve for unfunded commitments was $54 million as of March 31, 2011, a decrease of $4 million, or 7%, versus a reserve of $58 million at December 31, 2010. The decrease in the reserve was attributed to improved credit quality related to certain commercial and large corporate borrowers.

Nonperforming Assets

Nonperforming assets decreased by $190 million, or 4%, during the three months ended March 31, 2011. The decrease was attributable to a $139 million reduction in NPLs as a result of our problem loan resolution efforts. Real estate related loans comprise a significant portion of our overall nonperforming assets as a result of the U.S. housing market correction. The amount of time it takes us to foreclose upon residential real estate collateral in certain states, primarily Florida, has remained elevated, and we believe this is attributable to delays in the foreclosure process. These delays may impact the resolution of real estate related loans within the nonperforming assets portfolio. Nonetheless, we expect that we will see continued declines in NPLs in the second quarter of 2011.

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Nonperforming Assets **Table 9**

(Dollars in millions)	**March 31, 2011**	December 31, 2010	% Change[5]
Nonaccrual/NPLs:			
Commercial loans			
Commercial & industrial[1]	**$585**	$584	-
Commercial real estate	**435**	342	27
Commercial construction	**843**	961	(12)
Total commercial NPLs	**1,863**	1,887	(1)
Residential loans			
Residential mortgages - nonguaranteed[2]	**1,458**	1,543	(6)
Home equity products	**343**	355	(3)
Residential construction	**275**	290	(5)
Total residential NPLs	**2,076**	2,188	(5)
Consumer loans			
Other direct	**11**	10	10
Indirect	**21**	25	(16)
Total consumer NPLs	**32**	35	(9)
Total nonaccrual/NPLs	**3,971**	4,110	(3)
OREO[3]	**534**	596	(10)
Other repossessed assets	**16**	52	(69)
Nonperforming LHFS	**47**	-	NM
Total nonperforming assets	**$4,568**	$4,758	(4)%
Accruing loans past due 90 days or more	**$1,658**	$1,565	6%
TDRs:			
Accruing restructured loans	**2,643**	2,613	1
Nonaccruing restructured loans[4]	**976**	1,005	(3)
Ratios:			
NPLs to total loans	**3.46%**	3.54%	
Nonperforming assets to total loans plus OREO and other repossessed assets	**3.95**	4.08	

[1]Includes $4 million of loans carried at fair value at March 31, 2011 and December 31, 2010, respectively.

[2]Includes $19 million and $24 million of loans carried at fair value at March 31, 2011 and December 31, 2010, respectively.

[3]Does not include foreclosed real estate related to serviced loans insured by the FHA or the VA. Insurance proceeds due from the FHA and the VA are recorded as a receivable in other assets until the funds are received and the property is conveyed.

[4]Nonaccruing restructured loans are included in total nonaccrual/NPLs.

[5] NM - Not meaningful. Those changes over 100 percent were not considered to be meaningful.

Nonperforming commercial loans decreased by $24 million, or 1%, during the three months ended March 31, 2011, as a $118 million decrease in commercial construction NPLs was largely offset by a $93 million increase in commercial real estate NPLs. The increase in commercial real estate NPLs is related to a small number of large commercial real estate borrowers. We continue to expect some variability in inflows of commercial real estate NPLs as a result of the current commercial real estate correction cycle.

Nonperforming residential loans decreased by $112 million, or 5%, during the three months ended March 31, 2011, primarily as a result of an $85 million decrease in nonguaranteed residential mortgage NPLs. Of that $85 million decrease, $57 million was attributable to the reclassification of certain nonperforming residential mortgages as held for sale to reflect our intention to sell these mortgages in the second quarter. We recorded an incremental charge-off of $10 million in connection with the decision to transfer and sell these mortgages. The remaining decrease was attributable to lower inflows of NPLs and net charge-offs.

Nonperforming consumer loans decreased by $3 million, or 9%, during the three months ended March 31, 2011, primarily as a result of a $4 million decrease in indirect consumer NPLs. The decrease was driven by net charge-offs of existing nonperforming consumer loans during the quarter, partially offset by the migration of delinquent consumer loans to nonaccrual status.

OREO decreased by $62 million, or 10%, during the three months ended March 31, 2011. The decline consisted of a $71 million decrease in residential homes and a $3 million decrease in residential construction related properties, partially offset by an $11 million increase in commercial properties. During the three months ended March 31, 2011 and 2010, sales of OREO resulted in proceeds of $190 million and $153 million, respectively, and a net loss on sales of $13 million and a net gain on sales of $6 million, respectively, excluding changes in the valuation reserve attributable to lots and land for which current property-specific values were not available prior to sale. Sales of OREO and the related gains or losses are highly dependent on our disposition strategy and buyer opportunities. See Note 12, Fair Value Election and Measurement, to the Consolidated Financial Statements for more information. Gains and losses on sale of OREO are recorded in other real estate expense in the Consolidated Statements of Income/(Loss). Geographically, most of our OREO properties are located in Georgia, Florida, and North Carolina. Residential properties and land comprised 45% and 40%, respectively, of OREO; the remainder is related to commercial and other properties. Upon foreclosure, the value of these properties were re-evaluated and, if necessary, written down to their then-current estimated value, less costs to sell. Further declines in home prices could result in additional losses on these properties. We are actively managing and disposing of these foreclosed assets to minimize future losses.

Other repossessed assets decreased by $36 million, or 69%, during the three months ended March 31, 2011. The decrease was largely attributable to the sale of certain large repossessed assets during the quarter.

Accruing loans past due ninety days or more included $947 million and $884 million of residential mortgages at March 31, 2011 and December 31, 2010, respectively, which were fully insured by the FHA or the VA. Also included were $623 million and $596 million of federally guaranteed student loans at March 31, 2011 and December 31, 2010, respectively.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. We recognized $8 million and $11 million of cash basis interest income for the three months ended March 31, 2011 and 2010, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of $70 million and $96 million for the three months ended March 31, 2011 and 2010, respectively, would have been recorded.

At the end of 2010, we completed an internal review of STM s residential foreclosure processes. We have taken steps to improve upon our processes as a result of our review. In addition, the Federal Reserve recently conducted a horizontal review of the nation s largest mortgage loan servicers, including SunTrust. Following this review, SunTrust and other servicers entered into a Consent Order with the Federal Reserve. We describe the Consent Order in Note 14, Contingencies, to the Consolidated Financial Statements. See also, Part II, Item 1A, Risk Factors, in this Form 10-Q. The Consent Order requires us to improve certain processes and to retain an independent consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010 to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and then make any appropriate remediation, reimbursement, or adjustment. We have already begun implementing the requirements prescribed by the Consent Order. However, this may result in additional delays in the foreclosure process at a time when foreclosure upon residential real estate collateral in certain states, primarily Florida, is already elevated. 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. We expect that our costs will increase 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 enhancements 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. Nevertheless, we believe these additional costs will not have a material effect on our financial position, results of operations, and EPS.

Restructured Loans

In order to maximize the collection of loan balances, we evaluate troubled loans on a case-by-case basis to determine if a loan modification would be appropriate. We pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. For loans secured by residential real estate, if the client demonstrates a loss of income such that the client cannot reasonably support even a modified loan, we may pursue short sales and/or deed-in-lieu arrangements. For loans secured by income producing commercial properties, we perform a rigorous and ongoing review that is programmatic in nature. We review a number of factors, including cash flows, loan structures, collateral values, and guarantees, to identify loans within our income producing commercial loan portfolio that are most likely to experience distress. Based on our review of these factors and our assessment of overall risk, we evaluate the benefits of proactively initiating discussions with our clients to improve a loan s risk profile. In some cases, we may renegotiate terms of their loans so that they have a higher likelihood of continuing to perform. To date, we have restructured loans in a variety of ways to help our clients service their debt and to mitigate the potential for additional losses. The primary restructuring methods being offered to our residential clients are reductions in interest rates and extension in terms. For commercial loans, the primary restructuring method is the extensions of terms. Accruing loans with modifications deemed to be economic concessions resulting from borrower difficulties are reported as accruing TDRs. Nonaccruing loans that are modified and demonstrate a history of repayment performance in accordance with their modified terms are reclassified to accruing

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restructured status, typically after six months of repayment performance. Generally, once a residential loan becomes a TDR, it is probable that the loan will likely continue to be reported as TDR until it is ultimately repaid in full, or foreclosed and sold.

At March 31, 2011, our total TDR portfolio was $3.6 billion and was composed of $3.1 billion, or 86%, of residential loans (predominately first and second lien residential mortgages and home equity lines of credit), $473 million, or 13%, of commercial loans (predominately income-producing properties), and $12 million, or less than 1%, of direct consumer loans.

Accruing TDRs increased by $30 million, or 1%, during the three months ended March 31, 2011. The increase in accruing TDRs was attributable to a general increase in the number of loan modifications during the quarter. Nonaccruing TDRs decreased by $29 million, or 3%, during the three months ended March 31, 2011, reflecting net charge-offs during the quarter.

Interest income on restructured loans that have met sustained performance criteria and have been returned to accruing status is recognized according to the terms of the restructuring. Such interest income recorded was $27 million and $20 million for the three months ended March 31, 2011 and 2010, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of $37 million and $30 million for the three months ended March 31, 2011 and 2010, respectively, would have been recorded.

The following table displays our residential real estate TDR portfolio by modification type and payment status at March 31, 2011.

Selected Residential TDR Data **Table 10**

	Accruing TDRs			Nonaccruing TDRs		
(Dollars in millions)	Current	Delinquent[1]	Total	Current	Delinquent[1]	Total
Rate reduction	$369	$43	$412	$14	$60	$74
Rate reduction and term extension	1,746	290	2,036	65	454	519
Other[2]	50	10	60	6	27	33
Total	$2,165	$343	$2,508	$85	$541	$626

[1]TDRs considered delinquent for purposes of this table were those at least thirty days past due.

[2]Primarily consists of extensions and deficiency notes.

We note that some restructurings may not ultimately result in the complete collection of principal and interest (as modified by the terms of the restructuring), culminating in default, which could result in additional incremental losses. These potential incremental losses have been factored into our overall ALLL estimate. The level of re-defaults will likely be affected by future economic conditions. At March 31, 2011, specific reserves included in the ALLL for residential TDRs were $431 million.

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SELECTED FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following is a discussion of the more significant financial assets and financial liabilities that are currently carried at fair value on the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010. For a complete discussion of our fair value elections and the methodologies used to estimate the fair values of our financial instruments, refer to Note 12, Fair Value Election and Measurement, to the Consolidated Financial Statements.

Trading Assets and Liabilities **Table 11**

(Dollars in millions)	**March 31, 2011**	December 31, 2010
Trading Assets		
U.S. Treasury securities	**$226**	$187
Federal agency securities	**438**	361
U.S. states and political subdivisions	**156**	123
MBS - agency	**221**	301
MBS - private	**2**	15
CDO securities	**45**	55
ABS	**37**	59
Corporate and other debt securities	**716**	743
CP	**53**	14
Equity securities	**156**	221
Derivative contracts	**2,758**	2,743
Trading loans	**1,481**	1,353
Total trading assets	**$6,289**	$6,175
Trading Liabilities		
U.S. Treasury securities	**$540**	$439
Corporate and other debt securities	**277**	398
Equity securities	**1**	-
Derivative contracts	**1,913**	1,841
Total trading liabilities	**$2,731**	$2,678

Trading Assets and Liabilities

Trading assets increased $114 million, or 2%, since December 31, 2010. This increase was primarily driven by an increase in trading loans due to normal business activity. The increase was slightly offset by net decrease in MBS, ABS and equity securities due to normal trading fluctuations.

Certain illiquid securities were purchased during the fourth quarter of 2007 from affiliates, which included SIVs that are collateralized by various domestic and foreign assets, residential MBS, including Alternative A-paper and subprime collateral, CDOs, and commercial loans, as well as senior interests retained from SunTrust-sponsored securitizations. During the three months ended March 31, 2011, we recognized approximately $17 million in net market valuation gains related to these securities and received approximately $77 million in cash from sales and paydowns related to these securities, thereby eliminating our exposure to these distressed assets at March 31, 2011.

The Company also purchased ARS primarily in the fourth quarter of 2008 and first quarter of 2009. See additional discussion related to FINRA s ARS investigation in Note 14, Contingencies, to the Consolidated Financial Statements. The amount of ARS recorded in trading assets, at fair value, declined to $97 million as of March 31, 2011 compared to $147 million as of December 31, 2010 due to calls. The majority of these ARS are preferred equity securities, and the remaining securities are collateralized by trust preferred bank debt or student loans.

Trading liabilities increased $53 million, or 2%, since December 31, 2010 due primarily to an increase in derivative contracts as a result of normal business activity, slightly offset by a decrease in corporate and other debt securities that act as a hedge for some of the trading assets we own.

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Securities Available for Sale **Table 12**

	As of March 31, 2011			
(Dollars in millions)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury securities	**$223**	**$-**	**$1**	**$222**
Federal agency securities	**3,829**	**13**	**26**	**3,816**
U.S. states and political subdivisions	**537**	**17**	**3**	**551**
MBS - agency	**17,679**	**348**	**32**	**17,995**
MBS - private	**355**	**2**	**19**	**338**
CDO securities	**77**	**-**	**-**	**77**
ABS	**710**	**14**	**4**	**720**
Corporate and other debt securities	**55**	**2**	**1**	**56**
Coke common stock	**-**	**1,990**	**-**	**1,990**
Other equity securities[1]	**803**	**1**	**-**	**804**
Total securities AFS	**$24,268**	**$2,387**	**$86**	**$26,569**

[1]At March 31, 2011, other equity securities included $298 million in FHLB of Atlanta stock (par value), $391 million in Federal Reserve Bank stock (par value), and $114 million in mutual fund investments (par value).

	As of December 31, 2010			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$5,446	$115	$45	$5,516
Federal agency securities	1,883	19	7	1,895
U.S. states and political subdivisions	565	17	3	579
MBS - agency	14,014	372	28	14,358
MBS - private	378	3	34	347
CDO securities	50	-	-	50
ABS	798	15	5	808
Corporate and other debt securities	464	19	1	482
Coke common stock	-	1,973	-	1,973
Other equity securities[1]	886	1	-	887
Total securities AFS	$24,484	$2,534	$123	$26,895

[1]At December 31, 2010, other equity securities included $298 million in FHLB of Atlanta stock (par value), $391 million in Federal Reserve Bank stock (par value), and $197 million in mutual fund investments (par value).

Securities Available for Sale

The securities AFS portfolio is managed as part of our overall asset and liability management process to optimize income and portfolio value over an entire interest rate cycle while mitigating the associated risks. The size of the securities portfolio, at fair value, was $26.6 billion as of March 31, 2011, a decrease of $326 million, or 1%, versus December 31, 2010. Changes in the size and composition of the portfolio during the quarter reflect our efforts to maintain a high quality portfolio and manage our interest rate risk profile. These changes included reducing the size of the U.S. Treasury securities portfolio by $5.3 billion, from which the proceeds were partly used to repurchase our Series C and Series D Fixed Rate Cumulative Preferred Stock that we issued to the U.S. Treasury under the TARP s CPP. The proceeds were also used to increase agency MBS and federal agency securities. During the quarter ended March 31, 2011, we recorded $64 million in net realized gains from the sale of securities AFS as a result of the aforementioned activities in our portfolio, compared to net realized gains of $1 million during the same period in 2010. For additional information on composition and valuation assumptions related to securities AFS, see the Trading Assets and Securities Available for Sale section of Note 12, Fair Value Election and Measurement, to the Consolidated Financial Statements.

At March 31, 2011, the carrying value of securities AFS reflected $2.3 billion in net unrealized gains, which were comprised of a $2.0 billion unrealized gain from our remaining 30 million shares of Coke common stock and a $311 million net unrealized gain on the remainder of the portfolio. At December 31, 2010, the carrying value of securities AFS reflected $2.4 billion in net unrealized gains, which were comprised of a $2.0 billion unrealized gain from our remaining 30 million shares of Coke common stock and a $438 million net unrealized gain on the remainder of the portfolio. We entered into two variable forward agreements and share forward

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agreements effective July 15, 2008 with a major, unaffiliated financial institution (the Counterparty) collectively covering our 30 million Coke shares. Under The Agreements, we must deliver to the Counterparty at settlement of the variable forward agreements either a variable number of Coke common shares or a cash payment in lieu of such shares. The Counterparty is obligated to settle The Agreements for no less than approximately $38.67 per share, or approximately $1.16 billion in the aggregate (the Minimum Proceeds). The share forward agreements give us the right, but not the obligation, to sell to the Counterparty, at prevailing market prices at the time of settlement, any of the 30 million Coke common shares that are not delivered to the Counterparty in settlement of the variable forward agreements. The Agreements effectively ensure that we will be able to sell our 30 million Coke common shares at a price no less than approximately $38.67 per share, while permitting us to participate in future appreciation in the value of the Coke common shares up to approximately $66.02 per share and approximately $65.72 per share, under each of the respective variable forward agreements. Additional details related to these forward agreements can be found in Note 11, Derivative Financial Instruments, to the Consolidated Financial Statements and in our 2010 Annual Report on Form 10-K.

For the three months ended March 31, 2011, the average yield on a FTE basis for the securities AFS portfolio declined to 3.17% compared to 3.23% for the three months ended March 31, 2010. The yield decline was largely due to security maturities, prepayments, and sales, with the proceeds generally reinvested at current lower yields.

The portfolio s effective duration decreased to 3.2% as of March 31, 2011 from 3.3% as of December 31, 2010. Effective duration is a measure of price sensitivity of a bond portfolio to an immediate change in market interest rates, taking into consideration embedded options. An effective duration of 3.2% suggests an expected price change of 3.2% for a one percent instantaneous change in market interest rates.

The credit quality of the securities portfolio remained strong at March 31, 2011. Excluding $2.8 billion of fair value represented by equity securities, $22.9 billion, or 97%, of the remaining $23.8 billion in securities AFS carried an actual or implied AAA rating, the highest possible, as designated by at least one Nationally Recognized Statistical Rating Organization. The amount of ARS recorded in the securities AFS portfolio totaled $116 million as of March 31, 2011 and $128 million as of December 31, 2010. Included in ARS are tax-exempt municipal securities as well as student loan ABS.

Due to the high quality and highly liquid nature of the portfolio, we have the flexibility to respond to changes in the economic environment and take actions as opportunities arise to manage our interest rate risk profile and balance liquidity against investment returns. Over the longer term, we continue to expect that a growing economy will result in loan balances trending up and deposits trending down. Accordingly, we may eventually decrease the size of our securities portfolio in response to loan growth and/or declining deposits.

BORROWINGS

Short-Term Borrowings **Table 13**

	As of March 31, 2011		**Three Months Ended March 31, 2011**		
			Daily Average		**Maximum Outstanding**
(Dollars in millions)	**Balance**	**Rate**	**Balance**	**Rate**	**at any Month-End**
Fed funds purchased[1]	**$1,150**	**0.18%**	**$1,114**	**0.18%**	**$1,169**
Securities sold under agreement to repurchase[1]	**2,113**	**0.14**	**2,302**	**0.16**	**2,411**
CP issued	**163**	**1.05**	**169**	**1.01**	**169**
Other short-term borrowings[2]	**2,695**	**0.73**	**2,591**	**0.37**	**2,695**

	As of March 31, 2010		Three Months Ended March 31, 2010		
			Daily Average		Maximum Outstanding at any
(Dollars in millions)	Balance	Rate	Balance	Rate	Month-End
Fed funds purchased[1]	$1,159	0.19%	$1,416	0.17%	$3,163
Securities sold under agreement to repurchase[1]	2,794	0.11	1,980	0.10	2,794
CP issued	317	0.35	989	0.31	1,009
Other short-term borrowings[2]	2,071	0.91	1,864	0.52	2,071

[1]Fed funds purchased and securities sold under agreements to repurchase mature overnight or at a fixed maturity generally not exceeding three months. Rates on overnight funds reflect current market rates. Rates on fixed maturity borrowings are set at the time of borrowings.

[2]Other short-term borrowings includes master notes, dealer collateral held by the Company, U.S. Treasury demand notes, term Fed funds purchased, and other short-term borrowed funds.

Our period-end short-term borrowings decreased $220 million, or 3%, from March 31, 2010 to March 31, 2011. The decrease was primarily attributable to a reduction in securities sold under agreement to repurchase of $681 million and a $154 million decline in CP outstanding, largely offset by increases of $345 million, $75 million, and $72 million in dealer collateral, term Fed funds purchased, and U.S. Treasury demand notes, respectively.

Average short-term borrowings decreased $73 million, or 1%, from March 31, 2010 to March 31, 2011. The decrease was primarily attributable to an $820 million decline in average CP outstanding, largely offset by an increase of $727 million in average other short-term borrowings. The amount of average CP outstanding declined, in part, due to a downgrade of our short-term debt ratings during 2010.

At March 31, 2011, period-end outstanding balances were not materially different from maximum monthly outstanding balances or from the daily averages for any category of short-term borrowings. At March 31, 2010, Fed funds purchased was the only category of short-term borrowings with a material difference between the maximum outstanding balance during the three months ended March 31, 2010 and the period ended balance, as a result of borrowings temporarily increasing during January 2010 due to ordinary balance sheet management practices.

Long-Term Debt

During the three months ended March 31, 2011, our long-term debt increased by $1.0 billion. This increase was primarily due to our issuance of $1.0 billion of five year 3.60% senior notes on March 24, 2011, as part of our capital plan, in connection with the completion of the Federal Reserve s CCAR. During April 2011, we entered into a fair value hedge to swap the fixed rate on these notes to a floating rate as part of our overall asset/liability management objectives. For additional discussion of the Federal Reserve s CCAR, refer to Note 8, Long-Term Debt and Capital, to the Consolidated Financial Statements, and the Executive Overview section of this MD&A.

On April 1, 2011, $852 million of our outstanding ten year 6.375% subordinated notes matured and were redeemed at par.

CAPITAL RESOURCES

Our primary regulator, the Federal Reserve, measures capital adequacy within a framework that makes capital requirements sensitive to the risk profiles of individual banking companies. The guidelines weight assets and off-balance sheet risk exposures (risk weighted assets) according to predefined classifications, creating a base from which to compare capital levels. Tier 1 capital primarily includes realized equity and qualified preferred instruments, less purchase accounting intangibles such as goodwill and core deposit intangibles. Total capital consists of Tier 1 capital and Tier 2 capital, which includes qualifying portions of subordinated debt, ALLL up to a maximum of 1.25% of risk weighted assets, and 45% of the unrealized gain on equity securities.

Both the Company and the Bank are subject to a minimum Tier 1 capital and Total capital ratios of 4% and 8%, respectively, of risk weighted assets. To be considered well-capitalized, ratios of 6% and 10%, respectively, are required. Additionally, the Company and the Bank are subject to requirements for the Tier 1 leverage ratio, which measures Tier 1 capital against average assets for leverage purposes, a regulatory exposure measure with adjustments similar to those used to calculate Tier 1 capital. The minimum and well-capitalized ratios are 3% and 5%, respectively.

In September 2010, the BCBS announced new regulatory capital requirements (commonly referred to as Basel III) aimed at substantially strengthening existing capital requirements, through a combination of higher minimum capital requirements, new capital conservation buffers and more stringent definitions of capital and exposure. Basel III would impose a new common equity requirement of 7%, comprised of a minimum of 4.5% plus a capital conservation buffer of 2.5%. The transition period for banks to meet the revised common equity requirement will begin in 2013, with full implementation in 2019. 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. The new rule also proposes the deduction of certain assets in measuring Tier 1 capital. It is anticipated that U.S. regulators will adopt new regulatory capital requirements similar to those proposed by the BCBS and the new requirements are anticipated to be phased in over the period from 2013 to 2015. We monitor our capital structure as to compliance with current regulatory and prescribed operating levels and take into account these new regulations as they are published and become applicable to us in our capital planning.

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Capital Ratios **Table 14**

(Dollars in millions)	March 31, 2011	December 31, 2010
Tier 1 capital	**$14,363**	$18,156
Total capital	**18,178**	21,967
Risk-weighted assets	**130,581**	132,819
Tier 1 capital	**14,363**	18,156
Less:		
Qualifying trust preferred securities	**2,250**	2,350
Preferred stock	**173**	4,942
Allowable minority interest	**129**	127
Tier 1 common equity	**$11,811**	$10,737
Risk-based ratios:		
Tier 1 common equity	**9.05%**	8.08%
Tier 1 capital	**11.00**	13.67
Total capital	**13.92**	16.54
Tier 1 leverage ratio	**8.72**	10.94
Total shareholders equity to assets	**11.26**	13.38

In March, 2011, the Federal Reserve completed its CCAR to evaluate capital plans of the nineteen largest U.S. bank holding companies. As a result of the CCAR, some of the bank holding companies increased or restarted dividends payments, common stock repurchases, or repaid U.S. government capital borrowed under the CPP. Upon completion of their review, the Federal Reserve did not object to our capital plan submitted as part of the CCAR in December 2010. As such, during March, 2011, we initiated and completed certain elements of our capital plan, including public offerings of $1.0 billion of common stock and $1.0 billion of senior debt. In addition, we used the proceeds from those offerings, as well as other available funds, to repurchase $3.5 billion of Fixed Rate Cumulative Preferred Stock, Series C and $1.4 billion of Fixed Rate Cumulative Preferred Stock, Series D that was issued to the U.S. Treasury under the TARP s CPP. As a result of the repurchase of Series C and D preferred stock, we incurred a one-time, non-cash charge to net income available to common shareholders of $74 million during the three months ended March 31, 2011, related to accelerating the outstanding discount accretion on the Series C and D preferred stock. The U.S. Treasury continues to hold warrants to purchase 11,891,280 shares of our common stock at an initial exercise price of $44.15 per share and 6,008,902 shares of our common stock at an initial exercise price of $33.70 per share. At a future date, we may seek to repurchase these common stock warrants.

As a result of the common stock offering our common equity was enhanced, increasing by $1.0 billion, net of issuance costs, adding approximately 35 million new common shares to our total outstanding common shares. Conversely, during the three months ended March 31, 2011, total Shareholders Equity decreased by $3.9 billion from December 31, 2010 primarily as a result of the repurchase of the Series C and D preferred stock, offset by the issuance of the new common shares.

While our total equity decreased, our capital levels remain strong with Tier 1 common equity, Tier 1 capital, and Total capital ratios at 9.05%, 11.00%, and 13.92%, respectively, at March 31, 2011 compared to 8.08%, 13.67%, and 16.54%, respectively, at December 31, 2010. At December 31, 2010, our Tier 1 Capital ratio excluding preferred stock issued to the U.S. Treasury was 10.08%. The increase in Tier 1 common equity was the result of the issuance of common equity. The decline in Tier 1 capital and Total capital ratios was due to the reduction in total equity as a result of the repurchase of the preferred shares issued to the U.S. Treasury. Overall we remain well above the requirements to be considered well capitalized according to the current U.S. regulatory standards, and our capital ratios exceed the proposed guidelines recently published by the Basel Committee under Basel III and endorsed by U.S. regulatory agencies.

We declared and paid common dividends totaling $5 million during the three month periods ended March 31, 2011 and 2010, or $0.01 per common share. In addition, we declared dividends payable during the three month periods ended March 31, 2011 and 2010 of $2 million on our Series A preferred stock. Further, during the three month periods ended March 31, 2011 and 2010, we declared dividends payable of $60 million, in both periods, to the U.S. Treasury on the Series C and D Preferred Stock.

We were subject to certain restrictions on our ability to increase our dividend. However, with the repurchase of the preferred stock issued to the U.S. Treasury as part of the CPP, we look forward to returning capital to our shareholders, in the form of an increased common dividend, in due time and as appropriate. We expect that our Board will evaluate a modest dividend increase in the latter part of 2011 if our financial results and the economy continue to improve. See Part II, Item 1A, Risk Factors, in this Form 10-Q for additional information on our dividend. In addition, limits exist on the ability of the Bank to pay dividends to the Parent Company. Substantially all of our retained earnings are undistributed earnings of the Bank, which are restricted by various regulations administered by federal and state bank regulatory authorities. There was no capacity for payment of cash dividends to the Parent Company under these regulations at March 31, 2011.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to our Critical Accounting Policies as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

ENTERPRISE RISK MANAGEMENT

There have been no significant changes to Enterprise Risk Management described in our Annual Report on Form 10-K for the year ended December 31, 2010, except as discussed below.

Credit Risk Management

There have been no significant changes in our credit risk management practices as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Operational Risk Management

There have been no significant changes in our operational risk management practices as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Market Risk Management

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices. Interest rate risk, defined as the exposure of net interest income and MVE to adverse movements in interest rates, is our primary market risk, and mainly arises from the structure of the balance sheet. We are also exposed to market risk in our trading activities, investment portfolio, Coke common stock, MSRs, loan warehouse and pipeline, and debt and brokered deposits carried at fair value. The ALCO meets regularly and is responsible for reviewing our open positions and establishing policies to monitor and limit exposure to market risk. The policies established by ALCO are reviewed and approved by our Board.

Market Risk from Non-Trading Activities

As the future path of interest rates cannot be known in advance, we use simulation analysis to project net interest income under various interest rate scenarios including implied forward and deliberately extreme and perhaps unlikely scenarios. The analyses may include rapid and gradual ramping of interest rates, rate shocks, basis risk analysis, and yield curve twists. Each analysis incorporates what management believes to be the most appropriate assumptions about client behavior in an interest rate scenario. Specific strategies are also analyzed to determine their impact on net interest income levels and sensitivities.

The sensitivity analysis included below is measured as a percentage change in net interest income due to an instantaneous 100 basis point move in benchmark interest rates. Estimated changes set forth below are dependent upon material assumptions such as those previously discussed in our Annual Report on Form 10-K for the year ended December 31, 2010. The net interest income profile reflects a relatively neutral interest rate sensitive position with respect to an instantaneous 100 basis point change in rates.

Economic Perspective

Rate Change (Basis Points)	Estimated % Change in Net Interest Income Over 12 Months	
	March 31, 2011	December 31, 2010
+100	**(0.5%)**	0.2%
-100	**(0.8%)**	(0.9%)

The recognition of interest rate sensitivity from an economic perspective (above) is different from a financial reporting perspective (below) due to certain interest rate swaps that are used as economic hedges for fixed rate debt. The above profile includes the recognition of the net interest payments from these swaps, while the profile below does not include the net interest payments. The swaps are accounted for as trading assets and therefore, the benefit to income due to a decline in short term interest rates will be recognized as a gain in the fair value of the swaps and will be recorded as an increase in trading account profits/(losses) and commissions from a financial reporting perspective.

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Financial Reporting Perspective

Rate Change (Basis Points)	Estimated % Change in Net Interest Income Over 12 Months	
	March 31, 2011	December 31, 2010
+100	**(0.1%)**	0.5%
-100	**(1.0%)**	(1.0%)

The difference from December 31, 2010 to March 31, 2011 seen above in both the economic and financial reporting perspectives related to the +100 basis point shock scenario is primarily due to a slight increase in liability sensitivity from projected fixed rate loan and investment security growth, funded with short-term borrowings, and customer deposits. The -100 basis point shock scenario in the above economic and financial reporting perspectives are effectively unchanged from December 31, 2010 to March 31, 2011 as interest rates continue to remain at or near terminally low levels, as well as reaching floors of essentially zero percent in downward rate shocks.

We also perform valuation analysis, which is used for discerning levels of risk present in the balance sheet and derivative positions that might not be taken into account in the net interest income simulation analysis above. Whereas net interest income simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows and derivative cash flows minus the discounted present value of liability cash flows, the net of which is referred to as MVE. The sensitivity of MVE to changes in the level of interest rates is a measure of the longer-term repricing risk and options risk embedded in the balance sheet. Similar to the net interest income simulation, MVE uses instantaneous changes in rates. MVE values only the current balance sheet and does not incorporate the growth assumptions that are used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the MVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate deposit portfolios.

As of March 31, 2011, the MVE profile indicates changes with respect to an instantaneous 100 basis point change in rates.

Rate Shock (Basis Points)	Estimated % Change in MVE	
	March 31, 2011	December 31, 2010
+100	**(2.8%)**	(3.4%)
-100	**- %**	1.1%

While an instantaneous and severe shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, we believe that a gradual shift in interest rates would have a much more modest impact. Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current fiscal year). Further, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates. The net interest income simulation and valuation analyses do not include actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Trading Activities

Under established policies and procedures, we manage market risk associated with trading, capital markets and foreign exchange activities using a VAR approach that determines total exposure arising from interest rate risk, equity risk, foreign exchange risk, spread risk, and volatility risk. For trading portfolios, VAR measures the estimated maximum loss from a trading position, given a specified confidence level and time horizon. VAR exposures and actual results are monitored daily for each trading portfolio. Our VAR calculation measures the potential losses using a 99% confidence level with a one day holding period. This means that, on average, losses are expected to exceed VAR two or three times per year. We had no backtest exceptions to our overall VAR during the last twelve months. The following table displays high, low, and average VAR for the three months ended March 31, 2011 and 2010.

(Dollars in millions)	**March 31, 2011**	March 31, 2010
Average VAR	**$6**	$11
High VAR	**$7**	$13
Low VAR	**$5**	$10

Average VAR during the three months ended March 31, 2011 was lower compared to the three months ended March 31, 2010 primarily due to sales, paydowns, and maturities of illiquid trading assets. This is a result of continuing to manage down illiquid asset holdings where possible, as they are not part of our core business activities. Trading assets net of trading liabilities averaged $3.5 billion and $2.7 billion for the three months ended March 31, 2011 and 2010, respectively. Trading assets net of trading liabilities were $3.6 billion and $2.8 billion at March 31, 2011 and 2010, respectively. The increase in trading balances is primarily a result of increases in the TRS portfolio.

Liquidity Risk

Liquidity risk is the risk of being unable to meet obligations as they come due at a reasonable funding cost. We mitigate this risk by structuring our balance sheet prudently and by maintaining diverse borrowing resources to fund potential cash needs. For example, we structure our balance sheet so that we fund less liquid assets, such as loans, with stable funding sources, such as retail and wholesale deposits, long-term debt, and capital.

We assess liquidity needs in both the normal course of business and times of unusual events, considering both on- and off-balance sheet arrangements and commitments that may impact liquidity in certain business environments. We have contingency funding plans that assess liquidity needs that may arise from certain stress events such as credit rating downgrades, rapid asset growth, and financial market disruptions. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingent liquidity. These sources of contingent liquidity include available cash reserves, capacity to borrow from the FHLB system, the ability to sell, pledge, or borrow against unencumbered securities in the Bank s investment portfolio, and the capacity to borrow at the Federal Reserve discount window. As of March 31, 2011, the potential liquidity from these four sources totaled $46.6 billion which we believe exceeds any contingent liquidity needs.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital service. In addition, contingent uses of funds may arise from events such as financial market disruptions or credit rating downgrades. Factors that affect our credit ratings include, but are not limited to, the credit risk profile of our assets, the adequacy of our ALLL, the level and stability of our earnings, the liquidity profile of both the Bank and the Parent Company, the economic environment, and the adequacy of our capital base. As of March 31, 2011, Moody s, Standard & Poor s, and DBRS all maintained a Stable outlook on our credit ratings while Fitch upgraded our credit rating outlook from Stable to Positive on March 3, 2011, citing improved credit and earnings trends. Downgrades are possible, although not anticipated given the Stable and Positive credit rating outlooks.

Debt Credit Ratings and Outlook

As of March 31, 2011

	Moody s	**S&P**	**Fitch**	**DBRS**
SunTrust Banks, Inc.				
Short-term	P-2	A-2	F2	R-1 (low)
Senior long-term	Baa1	BBB	BBB+	A (low)
SunTrust Bank				
Short-term	P-2	A-2	F2	R-1 (low)
Senior long-term	A3	BBB+	BBB+	A
Outlook	Stable	Stable	Positive	Stable

The Bank and the Parent Company borrow in the money markets using instruments such as Fed funds, Eurodollars, and CP. As of March 31, 2011, the Parent Company had no CP outstanding and the Bank retained a material cash position in the form of excess reserves in its Federal Reserve account. In the absence of robust loan demand, we have chosen to deploy some of this excess liquidity to purchase and retire certain high-cost debt securities or other borrowings. During the first quarter, pursuant to a capital plan submitted to the Federal Reserve, we repurchased our Series C and Series D Fixed Rate Cumulative Preferred stock issued to the U.S. Treasury under the TARP s CPP. In particular, we repurchased $4.9 billion of our preferred stock using $2.9 billion of Parent Company cash and the net proceeds from the issuance of $1.0 billion of common stock and $1.0 billion of five year senior Parent Company debt. The Parent Company retains a material cash reserve, originating in part from our reduction in the size of the U.S. Treasury securities portfolio by $5.3 billion, in anticipation of the repurchase of our preferred stock. See additional discussion of the preferred stock repurchase and senior debt issuance in the Executive Overview, Long-Term Debt, and Capital Resources sections of this MD&A.

Sources of Funds. Our primary source of funds is a large, stable retail deposit base. Core deposits, primarily gathered from our retail branch network, are our largest and most cost-effective source of funding. Core deposits totaled $121.6 billion as of March 31, 2011, up from $120.0 billion as of December 31, 2010.

We also maintain access to a diversified collection of wholesale funding sources. These uncommitted sources include Fed funds purchased from other banks, securities sold under agreements to repurchase, negotiable CDs, offshore deposits, FHLB advances, Global Bank Notes, and CP. Aggregate wholesale funding totaled $23.1 billion as of March 31, 2011, up slightly from $22.9 billion as of December 31, 2010. In total, the Bank and Parent Company have approximately $4.1 billion of wholesale funding maturing during 2011, $852 million of which matured on April 1, 2011. There were no material wholesale debt maturities during the three months ended March 31, 2011. Net short-term unsecured borrowings, which includes wholesale domestic and foreign deposits and Fed funds purchased, totaled $6.1 billion as of March 31, 2011, down from $7.1 billion as of December 31, 2010.

We also have access to wholesale liquidity via the capital markets. The Parent Company maintains an SEC shelf registration statement from which it may issue senior or subordinated notes and various capital securities such as common or preferred stock. Our Board has authorized the issuance of up to $3.0 billion of such securities. The Bank maintains a Global Bank Note program under which it may issue senior or subordinated debt with various terms. As of March 31, 2011, the Bank had capacity to issue $32.1 billion of notes under the Global Bank Note program. Borrowings under these programs are designed to appeal primarily to domestic and international institutional investors. Institutional investor demand for these securities is dependent upon numerous factors, including but not limited to our credit ratings and investor perception of financial market conditions and the health of the banking sector. Our capacity under these programs refers to authorization granted by our Board, and does not refer to a commitment to purchase by any investor.

Parent Company Liquidity. Our primary measure of Parent Company liquidity is the length of time the Parent Company can meet its existing obligations using its present balance of cash and liquid securities without the support of dividends from the Bank or new debt issuance. In accordance with risk limits established by ALCO and the Board, we manage the Parent Company s liquidity by structuring its maturity schedule to minimize the amount of debt maturing within a short period of time. During the first quarter of 2011, we had no Parent Company debt that matured, and none is scheduled to mature during the remainder of 2011. Approximately $1.0 billion of Parent Company debt is scheduled to mature in 2012. Much of the Parent Company s liabilities are long-term in nature, coming from the proceeds of our capital securities and long-term senior and subordinated notes.

The primary uses of Parent Company liquidity include debt service, dividends on capital instruments, the periodic purchase of investment securities, and loans to our subsidiaries. We fund corporate dividends primarily with dividends from our banking subsidiary. We are subject to both state and federal banking regulations that limit our ability to pay common stock dividends in certain circumstances.

Recent Developments. Numerous legislative and regulatory proposals currently outstanding may have an effect on our liquidity if they become effective, the potential impact of which cannot be presently quantified. However, we believe that we will be well positioned to comply with new standards as they become effective as a result of our strong core banking franchise and conservative liquidity management practices. See discussion of certain current legislative and regulatory proposals within the Executive Overview section of this MD&A.

Other Liquidity Considerations. As detailed in Table 15, we had an aggregate potential obligation of $63.5 billion to our clients in unused lines of credit at March 31, 2011. Commitments to extend credit are arrangements to lend to clients who have complied with predetermined contractual obligations. We also had $6.0 billion in letters of credit as of March 31, 2011, most of which are standby letters of credit, which require that we provide funding if certain future events occur. Approximately $3.9 billion of these letters as of March 31, 2011 supported variable rate demand obligations.

As of March 31, 2011, our cumulative UTBs amounted to $99 million. The gross liability for interest related to UTBs was $21 million as of March 31, 2011. These UTBs represent the difference between tax positions taken or expected to be taken in our tax returns and the benefits recognized and measured in accordance with the relevant accounting guidance for income taxes. The UTBs are based on various tax positions in several jurisdictions and, if taxes related to these positions are ultimately paid, the payments would be made from our normal, operating cash flows, likely over multiple years.

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Unfunded Lending Commitments **Table 15**

(Dollars in millions)	**March 31, 2011**	December 31, 2010
Unused lines of credit		
Commercial	**$34,424**	$34,363
Mortgage commitments [1]	**9,885**	9,159
Home equity lines	**13,436**	13,557
CRE	**1,552**	1,579
CP conduit	**685**	1,091
Credit card	**3,541**	3,561
Total unused lines of credit	**$63,523**	$63,310
Letters of credit		
Financial standby	**$5,822**	$6,263
Performance standby	**88**	108
Commercial	**59**	68
Total letters of credit	**$5,969**	$6,439

[1]Includes $2.7 billion and $4.2 billion in IRLCs accounted for as derivatives as of March 31, 2011 and December 31, 2010, respectively.

Other Market Risk

Except as discussed below, there have been no other significant changes to other market risk as described in our Annual Report on Form 10-K for the year ended December 31, 2010.

MSRs being carried at fair value total $1.5 billion and $1.4 billion as of March 31, 2011 and December 31, 2010, respectively, are managed within established risk limits and are monitored as part of various governance processes. We originated MSRs with a fair value of $88 million and $66 million, at the time of origination, during the three months ended March 31, 2011 and 2010, respectively. We recorded an increase in fair value of $18 million and a decrease of $110 million for the three months ended March 31, 2011 and 2010, respectively, including decay resulting from the realization of expected monthly net servicing cash flows.

We recorded a loss related to fair value MSRs of $25 million (including decay of $52 million) for the three months ended March 31, 2011 and a loss of $33 million (including decay of $65 million) for the three months ended March 31, 2010, inclusive of the mark to market adjustments on the related hedges.

See the Noninterest Income section of this MD&A, as well as, Risk Factors in Part II, Item 1A in this Form 10-Q for discussion of risk related to the value of our MSRs resulting from the Federal Reserve Consent Order.

OFF-BALANCE SHEET ARRANGEMENTS

See discussion of off-balance sheet arrangements in Note 6, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities, and Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

CONTRACTUAL COMMITMENTS

In the normal course of business, we enter into certain contractual obligations, including obligations to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts. Except as noted in the Long-Term Debt section of this MD&A, there have been no significant updates to our contractual commitments as described in our 2010 Annual Report on Form 10-K.

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BUSINESS SEGMENTS

The following table for our reportable business segments compares net income/(loss) for the three months ended March 31, 2011 to the same period in 2010:

Net Income/(Loss) by Segment **Table 16**

	Three Months Ended March 31	
(Dollars in millions)(Unaudited)	**2011**	2010
Retail Banking	**$26**	$-
Diversified Commercial Banking	**69**	44
CRE	**(78)**	(42)
CIB	**93**	36
Mortgage	**(166)**	(314)
W&IM	**39**	29
Corporate Other and Treasury	**145**	117
Reconciling Items	**52**	(31)

The following table for our reportable business segments compares average loans and average deposits for the period ended March 31, 2011 to the same period in 2010:

Average Loans and Deposits by Segment **Table 17**

	Three Months Ended March 31			
	Average Loans		Average Consumer and Commercial Deposits	
(Dollars in millions)(Unaudited)	**2011**	2010	**2011**	2010
Retail Banking	**$35,141**	$32,475	**$75,574**	$73,506
Diversified Commercial Banking	**22,567**	22,746	**19,228**	19,346
CRE	**7,970**	10,835	**1,429**	1,752
CIB	**12,170**	10,969	**7,843**	5,929
Mortgage	**29,315**	28,886	**2,983**	2,444
W&IM	**7,797**	8,220	**12,716**	11,409
Corporate Other and Treasury	**236**	315	**971**	814

See Note 15, Business Segment Reporting, to the Consolidated Financial Statements for additional discussion of our segment structure, basis of presentation and internal management reporting methodologies. We are evaluating our line of business structure as a result of the recently announced management changes; realignment of our reportable segments may occur in the future as a result of this evaluation.

BUSINESS SEGMENT RESULTS

Three Months Ended March 31, 2011 vs. 2010

Retail Banking

Retail Banking reported net income of $26 million for the three months ended March 31, 2011, an increase of $26 million, over break-even results for the same period in 2010. The increase in net income was primarily due to lower provision for credit losses and higher net interest income that was partially offset by lower noninterest income and higher noninterest expense.

Net interest income was $623 million, an increase of $15 million, or 2%, from the same period in 2010. The increase was driven by higher average loans, loan spreads, and average deposit balances that offset lower deposit spreads. Average loan balances increased $2.7 billion, or 8%, partially due to the purchase of $1.5 billion of guaranteed student loans during the latter part of 2010. Indirect auto loans increased $2.8 billion, partially driven by the acquisition of $1.7 billion of high-quality consumer auto loans in the third and fourth quarters of 2010. Partially offsetting those increases were decreases in equity lines, residential mortgages, and business banking loans. Loan-related net interest income increased $26 million, or 12%, compared to the prior year driven by increased loan volume and higher loan spreads. Average deposit balances increased $2.1 billion, or 3%. Favorable deposit mix trends continued as

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relatively low cost average deposit balances increased, offsetting a $3.4 billion, or 16%, decline in average time deposits. Deposit-related net interest income decreased $14 million, or 3%, as the value of deposits fell in the current interest rate environment.

Provision for credit losses was $216 million, a decrease of $68 million, or 24%, over the same period in 2010 primarily driven by declines of $35 million in equity line, $12 million in credit card, and $9 million in residential mortgage loan net charge-offs.

Total noninterest income was $263 million, a decrease of $13 million, or 5%, compared to the same period in 2010. Service charges on deposits decreased $30 million, or 20%, driven by lower NSF/overdraft fees resulting from Regulation E changes partially offset by higher interchange and ATM card fees which increased a combined $15 million, or 15%, primarily due to increased transaction volume and accounts.

Total noninterest expense was $628 million, up $27 million, or 4%, compared to the same period in 2010. The increase was primarily driven by increases in other real estate, marketing and advertising, and in shared corporate expenses primarily in technology and operational areas.

Diversified Commercial Banking

Diversified Commercial Banking reported net income of $69 million for the three months ended March 31, 2011, an increase of $25 million, or 57%. The increase in net income was attributable to decreases in provision for credit losses and higher net interest income.

Net interest income was $172 million, a $15 million, or 10%, increase over prior year. Average loan balances declined $179 million, or 1%, with decreases in leasing and commercial real estate loans, partially offset by increases in tax-exempt loans and auto dealer floor plan loans. We experienced slight increases in line utilization rates during the current quarter. Loan-related net interest income increased $14 million, or 15%, compared to the first quarter in 2010 as increased loan spreads more than offset the decrease in average loan balances. Average deposits decreased $118 million, or 1%, from the same period in 2010. However, favorable trends in deposit mix continued as higher cost certificates of deposit declined $783 million, or 51%, while lower cost demand deposits increased $908 million, or 14%. NOW and money market combined average balances declined $259 million, or 2%. Deposit-related net interest income decreased $2 million, or 3%, due to a modest decrease in overall deposit spreads and overall deposit balances.

Provision for credit losses was $8 million, a decrease of $16 million, or 67%. The decrease was primarily driven by lower net charge-offs in lease financing and commercial domestic.

Total noninterest income was $58 million, an increase of $6 million, or 12%, driven primarily by leasing revenue. Additional increases in card services, loan commitment fees, and sales and referral credits were offset by lower letters of credit fees and service charges on deposits.

Total noninterest expense was $114 million, down $2 million, or 2%, driven by decreases in lease impairment expenses and allocated marketing and advertising support expenses. Those declines were partially offset by increases in overhead and staff expenses.

Commercial Real Estate

CRE reported a net loss of $78 million for the three months ended March 31, 2011, compared to a net loss of $42 million for the same period in 2010. The increase in net loss was primarily due to higher provision expense.

Net interest income was $35 million, an $8 million, or 19%, decline from the same period in 2010. Average loan balances declined $2.9 billion, or 26%, largely resulting from a $2.5 billion decrease in commercial real estate loans. Loan-related net interest income decreased $7 million, or 19%, as the decrease in average balances more than offset higher loan spreads. Average deposit balances declined $323 million, or 18%, largely driven by a $214 million decrease in money market accounts. Deposit-related net interest income declined from prior year by $2 million, or 21%, primarily attributable to decreased average balances and lower deposit spreads.

Provision for credit losses was $108 million, a $38 million increase over the same period in 2010. The increase was predominantly driven by higher net charge-offs of residential land and investor owned loans.

Total noninterest income was $27 million, an increase of $6 million, or 29%, from the same period in 2010. The increase was primarily due to favorable mark to market gains related to the GB&T loan portfolio carried at fair market value related to loan repayments and higher income related to Affordable Housing.

Total noninterest expense was $109 million, an increase of $16 million, or 17%, over the same period in 2010. The increase was primarily driven by higher other real estate expenses.

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Corporate and Investment Banking

CIB s net income for the three months ended March 31, 2011 was $93 million, an increase of $57 million, or 158%, compared to the same period in 2010. The increase was driven by higher total revenues and a decline in provision for credit losses, which were partially offset by an increase in noninterest expense.

Net interest income was $116 million, an increase of $33 million, or 40%, from the prior year. The increase was primarily driven by a $1.2 billion, or 11%, increase in average loan balances. The increase in loan balances was largely the result of a $902 million increase in Three Pillars, our CP conduit, and a $226 million increase in asset based lending loans. The increase in average loan balances, as well as higher loan spreads, resulted in a $25 million, or 47%, increase in loan-related income. Line of credit utilization rates declined slightly and remained at a historic low. Total average customer deposits increased $1.9 billion, or 32%, with growth concentrated in money market accounts, NOW accounts, and demand deposits. Higher deposit volumes mitigated lower deposits spreads which resulted in increased net interest income.

Provision for credit losses was a net recovery of $1 million, as net charge-offs declined $30 million from the prior year. Lower net charge-offs related to large corporate borrowers operating in economically sensitive industries drove the decline.

Total noninterest income was $176 million, an increase of $63 million, or 56%, over the prior year. The increase is primarily due to improved performance in loan syndications, equity underwritings, and investment grade bond originations, as well as a decline in valuation related losses related to the deterioration of collateral on previously securitized loans and higher merchant banking gains.

Total noninterest expense was $147 million, an increase of $37 million, or 34%. The increase was primarily due to higher staff expense related to increased revenue generation and higher operating losses.

Mortgage

Mortgage reported a net loss of $166 million for the three months ended March 31, 2011, an improvement of $148 million, or 47%, compared to the same period in 2010. The improvement in net loss was attributable to a reduction in the provision for credit losses, increased noninterest income, and higher net interest income.

Net interest income was $125 million for the three months ended March 31, 2011, up $23 million, or 23%, primarily due to higher net interest income on loans and deposits. Total average loans, primarily consumer mortgages, increased $429 million, or 1%, resulting in an increase in net interest income of $18 million, or 28%. Average deposits increased $539 million, or 22%, driving an increase in net interest income of $4 million, or 16%.

Provision for credit losses declined $178 million, or 44%, from the same period in 2010. The decline was partially due to specific actions taken in the first quarter of 2010 which resulted in additional charge-offs recognized on severely delinquent residential mortgage NPLs, primarily in Florida, as well as $51 million in charge-offs related to the $211 million of loans that were reclassified to LHFS and subsequently sold partially offset by a $10 million charge-off in 2011 related to the transfer of NPLs to LHFS.

Total noninterest income was $81 million, up $34 million, or 72%, compared with the same period in 2010. The increase was primarily due to higher mortgage production income. Mortgage loan production income increased $35 million, or 95%, primarily due to lower mortgage repurchase costs, partially offset by reduced income resulting from lower loan production-related revenues. Loan originations were $5.8 billion for the three months ended March 31, 2011 compared to $5.6 billion for the prior year, a 2% increase. Mortgage servicing income was $72 million, an increase of $2 million, or 3%, from the same period in 2010. Total loans serviced were $164.5 billion at March 31, 2011 compared to $178.0 billion at March 31, 2010.

Total noninterest expense was $252 million, which was down $2 million, or 1%, compared to the same period in 2010. A reduction in collection services expense of $15 million more than offset an increase in staff related expenses.

Wealth and Investment Management

W&IM s net income for the three months ended March 31, 2011 was $39 million, an increase of $10 million, or 34%, compared to the same period in 2010. The increase in net income was primarily due to higher trust and retail investment income and net interest income partially offset by an increase in noninterest expense.

Net interest income was $105 million, an increase of $10 million, or 11%, driven mostly by deposit-related net interest income. Average loan balances declined $423 million, or 5%, with decreases primarily in consumer direct categories, commercial real estate, and residential mortgages. Loan-related net interest income increased $2 million, or 5%, as higher loan spreads more than offset the decrease in average loan balances. Average customer deposits increased $1.3 billion, or 11%, as money market accounts increased

$1.8 billion, or 52%. Additionally, average demand deposits increased $264 million, or 13%, while average certificates of deposit decreased $494 million, or 32%, and NOW accounts decreased $295 million, or 7%. Deposit-related net interest income increased $8 million, or 12%, due to the combination of higher average balances and improved deposit spreads.

Provision for credit losses was $17 million, an increase of $4 million, or 31%, primarily due to increased consumer loan net charge-offs.

Total noninterest income was $215 million, an increase of $29 million, or 16%. Trust income increased $13 million, or 10%, primarily due to higher market valuations on managed equity assets partially offset by lower money market mutual fund revenue. Retail investment income increased $11 million, or 24%, driven by increased recurring brokerage revenue, annuity income, and mutual fund trailers.

As of March 31, 2011, assets under management were approximately $104.6 billion compared to $122.7 billion as of March 31, 2010. Assets under management include individually managed assets, the RidgeWorth Funds, managed institutional assets, and participant-directed retirement accounts. The March 31, 2010 assets under management included approximately $18 billion of money market mutual fund assets that transferred to a third party during the latter part of 2010. SunTrust s total assets under advisement were approximately $201.9 billion, which includes $104.6 billion in assets under management, $51.2 billion in non-managed trust assets, $35.7 billion in retail brokerage assets, and $10.4 billion in non-managed corporate trust assets.

Total noninterest expense was $237 million, an increase of $15 million, or 7%. The increase was primarily driven by staff expense due to higher compensation associated with revenue growth as well as increases in structural expense, other real estate expense, and allocated administrative expense.

Corporate Other and Treasury

Corporate Other and Treasury s net income for the three months ended March 31, 2011 was $145 million, an increase of $28 million, or 24%, compared to the same period in 2010. The increase was primarily due to increased securities gains.

Net interest income was $139 million, an increase of $16 million, or 13%. The increase was mainly due to change in the interest rate environment. Total average assets increased $411 million, or 1%. Total average deposits decreased $170 million, or 7%, primarily due to a decrease in brokered deposits as we reduced our reliance on wholesale funding sources in conjunction with solid consumer and commercial deposit growth.

Total noninterest income was $77 million, an increase of $69 million compared to the same period in 2010. The increase was mainly due to an increase in securities gains of $62 million.

Total noninterest expense increased $22 million compared to the same period in 2010. The increase was primarily due to higher staff expenses and lower gains on the extinguishment of debt in 2011.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Market Risk Management in the MD&A, which is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company conducted an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of March 31, 2011. The Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2011. However, the Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance, but can provide reasonable assurance, that the objectives of the controls system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in internal control over financial reporting

There have been no changes to the Company s internal control over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. 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 Note 14, Contingencies, to the Consolidated Financial Statements, which is incorporated into this item 1 by reference.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

In addition, the Company amends two existing risk factors to reference additional information.

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.

On April 13, 2011 SunTrust Banks, Inc., SunTrust Bank and SunTrust Mortgage, Inc. entered into a Consent Order with the Federal Reserve in which SunTrust Banks, Inc., SunTrust Bank and SunTrust Mortgage, Inc. agreed to strengthen oversight of, and improve, risk management, internal audit and compliance programs concerning the residential mortgage loan servicing, loss mitigation and foreclosure activities of SunTrust Mortgage, Inc. See Note 14, Contingencies Consent Order with the Federal Reserve, to the Consolidated Financial Statements for further discussion of the Consent Order.

We completed an internal review of SunTrust Mortgage, Inc. s residential foreclosure processes, and as a result of the review, steps have been taken to improve upon those processes. Under the terms of the Consent Order SunTrust Bank and SunTrust Mortgage, Inc. also agreed to retain an independent consultant to conduct a review of residential foreclosure actions pending at any time during the period from January 1, 2009 through December 31, 2010 for loans serviced by SunTrust Mortgage, Inc., to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and then make any appropriate remediation, reimbursement or adjustment. Until the results of this review are known, we cannot reasonably estimate financial reimbursements or adjustments that may be required.

The Federal Reserve has said that it believed monetary sanctions would be appropriate as a result of its review that preceded the Consent Order, and that it planned to announce monetary sanctions. It has not made any further announcements nor has it provided us with information related to timing or amount of any potential monetary sanctions.

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 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.

Further, in February 2009, the Federal Reserve advised bank holding companies that safety and soundness considerations required that dividends be substantially reduced or eliminated. Since that time, the Federal Reserve has indicated that increased capital distributions would generally not be considered prudent in the absence of a well-developed capital plan and a capital position that would remain strong even under adverse conditions. As a result, we expect that any substantial increase in our dividend will require the approval of the Federal Reserve.

Additionally, our obligations under the warrant agreements (that we entered into with the U.S. Treasury as part of the CPP) will increase to the extent that we pay dividends prior to December 31, 2018 exceeding $0.54 per share per year, which was the amount we paid when we first participated in the CPP. Specifically, the exercise price and the number of shares to be issued upon exercise of the warrants will be adjusted proportionately (that is, adversely to the Company) as specified in a formula contained in the warrant agreements.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

SunTrust did not repurchase any shares of its common stock or Series A Preferred Stock Depositary Shares during the period ended March 31, 2011. On August 14, 2007, the Board authorized the Company to repurchase up to 30 million shares of common stock and specified that such authorization replaced (terminated) existing unused authorizations. No stock repurchases have been made under this authorization. This authority was terminated on January 5, 2011. The Company was also authorized to repurchase up to $250 million face amount of various tranches of its hybrid capital securities, including its Series A Preferred Stock. This authority was terminated on January 5, 2011.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

(a) None.

(b) None.

Item 6. EXHIBITS

Exhibit	Description	Sequential Page Number
3.1	Amended and Restated Articles of Incorporation of the Registrant, restated effective January 16, 2009, incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K filed January 22, 2009.	*
3.2	Bylaws of the Registrant, as amended and restated on March 4, 2010, incorporated by reference to Exhibit 3.2 of the Registrant s Current Report on Form 8-K filed March 5, 2010.	*
10.1	Form of TSR Performance-Vested Restricted Stock Unit Award Agreement under the SunTrust Banks, Inc. 2009 Stock Plan, incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K/A filed April 27, 2011.	*
10.2	Form of Tier 1 Capital Performance-Vested Restricted Stock Unit Award Agreement under the SunTrust Banks, Inc. 2009 Stock Plan, incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 4, 2011.	*
10.3	Form of Pro-Rata Nonqualified Stock Option Award Agreement under the SunTrust Banks, Inc. 2009 Stock Plan, incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 4, 2011.	*
31.1	Certification of Chairman of the Board, and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
31.2	Certification of Corporate Executive Vice President, Chief Financial Officer and Treasurer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.1	Certification of Chairman of the Board, and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.2	Certification of Corporate Executive Vice President, Chief Financial Officer and Treasurer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
101.1	Interactive Data File.	(filed herewith)

* incorporated by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 6th day of May, 2011.

SunTrust Banks, Inc.
(Registrant)

/s/ Thomas E. Panther
Thomas E. Panther
Senior Vice President and Controller
(On behalf of the Registrant and as Principal

Accounting Officer)