Capital One Bank

Cover photo – Our newly opened Dolley Madison Branch. Capital One, the only top-ten bank headquartered in our nation's capital, has more branches and ATM's than any of its competitors in metropolitan Washington.

Chairman's Letter to Shareholders and Friends

In 2010 Capital One emerged from the Great Recession as one of the nation's strong banks. As a result of our proactive, multi-year strategy to transform the Company into a bank, we avoided the fate suffered by capital markets-funded specialty lenders. We've become one of the leading banks in the United States by combining the best aspects of national scale and local banking.

Over the past three years, we successfully weathered the impact of three sweeping external forces – the Great Recession, the most significant financial legislative and regulatory reforms in generations (including the CARD Act and the Dodd-Frank Act), and balance sheet consolidation under new accounting rules (FAS 166/167). Along the way, we made major strides in many key areas, including bank infrastructure, customer service, new products and partnerships, capital management, and attracting and developing great talent. These moves have positioned us to grow organically, capitalize on opportunities created by the market turmoil, and continue to deliver long-term shareholder value.

Capital One delivered solid results in 2010, driven by strong earnings and improved credit

Operating earnings were $3.1 billion, or $6.68 per share, with GAAP earnings of $2.7 billion, or $6.01 per share. Charge-offs fell to $6.7 billion, or 5.2%, from $8.4 billion, or 5.9%, a year earlier – an improvement of $1.7 billion. Capital One was among a handful of banks that posted annual operating profits in each year of the recession, and 2010's results were considerably stronger than 2009's.

Our businesses delivered strong core results in 2010, posting $1.3 billion in net income before the impacts of changes in our allowance for loan losses. Several factors impacted our allowance for loan losses in 2010. Loan balances declined in response to our tighter underwriting and weak consumer demand. Credit improved significantly as our national lending businesses passed the cyclical peak in charge-offs and delinquencies. And with the FAS 166/167 accounting change, we brought more than $45 billion in loans onto our balance sheet and built our allowance for loan losses by over $4 billion at the beginning of 2010. The cumulative impact of these factors was a significant allowance release, which added to our 2010 net income.

Our stock price rose 11% in 2010, to $42.56 per share at year-end, and continued to rise in early 2011. At the end of February, our stock price had risen to $49.77, a year-to-date increase of 16.9%, and an increase of 29.8% from the beginning of 2010. Through February 2011, total shareholder return since our initial public offering in 1994 has been 952.9%, compared to total shareholder returns of 101.1% in the KBW Bank Index and 185.1% in the S&P 500® Stock Index over that same time period.

Our Credit Card business continues to produce industry-leading returns

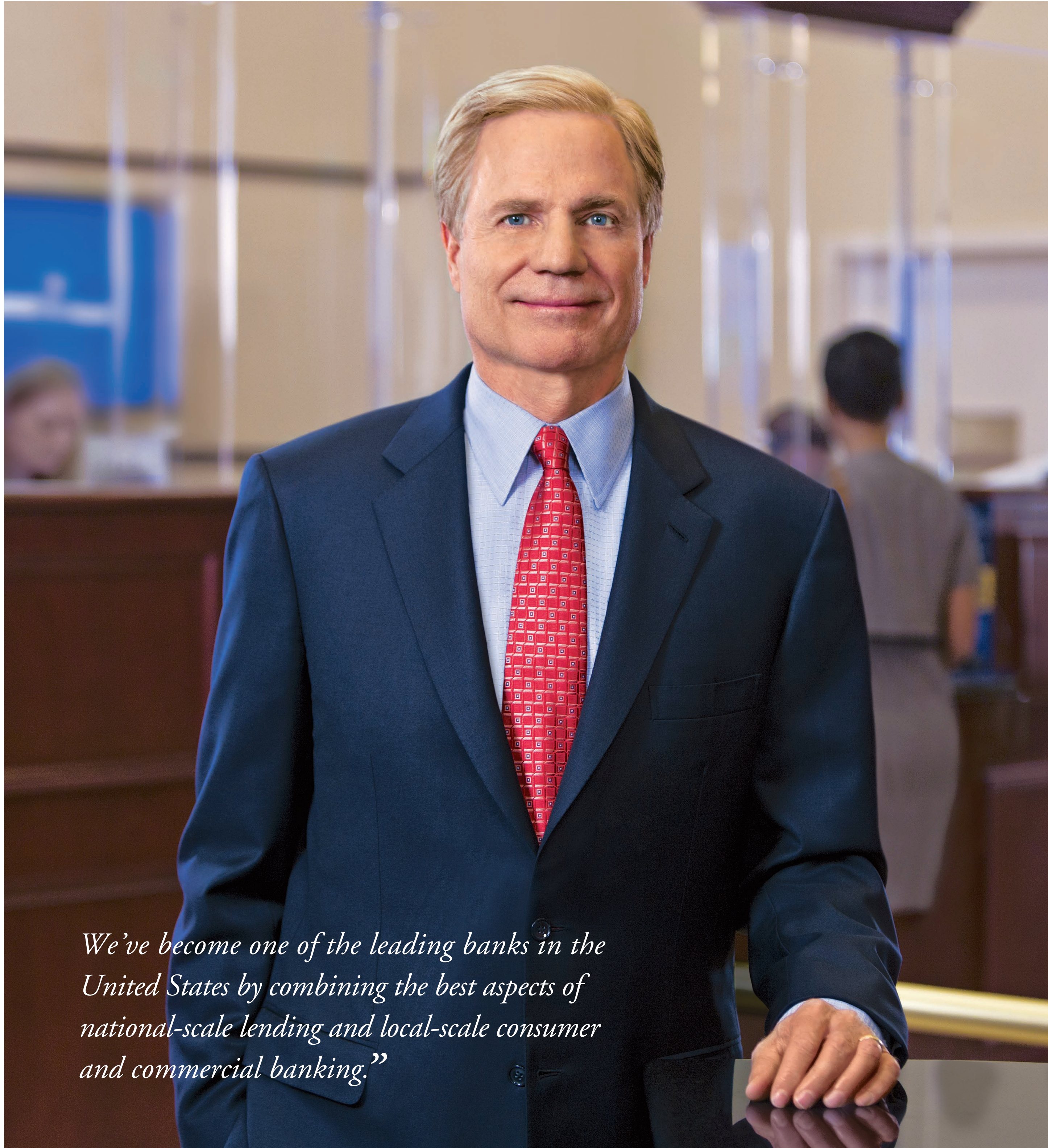
Capital One's card business had an outstanding year. After two years at the billion-dollar mark, net income nearly doubled, to $1.9 billion, in 2010. After-tax returns on managed loans were 3.4%, the highest in the industry for the sixth straight year, with mid-pack credit losses.

of 2010 we had implemented substantially all the requirements f the CARD Act. Our adjustment was relatively smooth, primarily ecause we did not rely on many of the practices it banned – ractices such as long 0% balance transfer teasers coupled with ggressive penalty repricing. Our revenue margin is close to its re-recession, pre-CARD Act level, and our business model is rgely intact. Capital One is in an excellent position to gain market nare on the newly leveled playing field created by the CARD Act.

several breakthrough cards in 2010. Venture Rewards and usiness provide double rewards on all purchases. Rewards dholders can redeem miles to fly on any airline with no blackout dates. *Money*® Magazine called Venture the "Best Rewards Card if you aim to rack up airline miles," and its exceptional value has won praise from *Time*®, *Newsweek*®, ABC News®, CBS News®, *CNNMoney*®, and *Consumer Reports*®. Consumer response to initial marketing campaigns has been excellent. Aspire World MasterCard®, a similar product tailore to the Canadian market, has also been a big hit.

The card business is opening significant new channels by forming partnerships with leading retailers like Kohl's® in the United States and Hudson's Bay Company® in Canada. We also launched two co-branded cards, the Sony Card℠ from Capital One in the United States and the Delta SkyMiles® World MasterCard® from Capital One in Canada. Our new partners greatly expand our customer universe, and our partners benefit from many of C strengths: our powerful brand; our award-winning customer service; and our proven skills in underwriting, product innovation, and marketing.

Capital One has always worked hard to deliver high-quality customer service, but this year's drive to do even better for our cardholders produced significant enhancements. We've sharpened execution across the



We've become one of the leading banks in the United States by combining the best aspects of national-scale lending and local-scale consumer and commercial banking."

board, tailored phone service by customer segment, and improved our Web site, a benefit to all customers but especially to those who like to manage their accounts online. The payoffs: customer satisfaction rose dramatically, and our High Value Servicing team received the International Customer Management Institute's (ICMI®) coveted Global Call Center of the Year Award as well as the prestigious Call Center Certification℠ Program from J.D. Power and Associates.

Our risk operations team has provided assistance to millions of cardholders impacted by the recession. The team's dedication to the task is just one example of the extra effort we've made to help our customers and communities through these hard times. We lent a hand because it was the right thing to do for our customers. It's the right thing to do for our shareholders, too. The work of our risk operations team enhanced customer loyalty and helped to retain billions of dollars in loans.

Capital One's international businesses are performing well, and posted net income of $376 million in 2010. In the UK, we've successfully navigated severe cyclical challenges and completed a successful turnaround to deliver strong profits. Canada generally fared better than many other parts of the world during the recession, and our Canadian business continued to deliver steady profitability.

Consumer Banking delivered strong profits, improving credit, and outstanding growth in low-cost deposits and high-value customer relationships

Consumer Banking at Capital One includes our Retail Deposits business, our Mortgage portfolio, and our Auto Finance business. Net income for 2010 was $906 million. Net charge-offs improved significantly over the course of the year, to 1.98% from 2.85%.

Deposits in our Consumer Banking business increased $8.8 billion, to $83 billion, and we have shifted the mix away from higher-cost time deposits toward lower-cost liquid savings and checking accounts. The mix shift, along with disciplined deposit pricing, improved our deposit interest expense by 28 basis points in 2010, to 1.13%, which lowers our overall funding costs and adds even more strength to the balance sheet. In the process, we are attracting high-value customers, and as we deepen our relationships with them, we can grow both loans and revenues.

Although Capital One's Consumer Banking business inherited troubled mortgages in banking acquisitions, mortgages now account for only about $12 billion, or 9.6%, of Capital One's total loans. On the whole, credit results for the mortgage portfolio have been relatively strong through the downturn, with charge-off rates below 1% and non-performing asset levels below those of most of our competitors. About $5 billion of these mortgages were originated by Chevy Chase Bank. We "marked" these loans at the time of the acquisition, so we believe our credit metrics and income statement are largely insulated from the credit risk of these loans.

We remain focused on managing and reducing the mortgage portfolio's credit risks. Although we expect that further declines in home prices will put additional pressure on mortgage credit in 2011, we believe that our portfolio will continue to perform relatively well.

We shut down the out-of-footprint national mortgage origination business early in the cycle (in August 2007), but Capital One is still exposed to rep and warranty risks for mortgage loans made and sold prior to that time. While the mortgages giving rise to this risk came with our bank purchases, which proved to be essential given the subsequent economic collapse, there will be a long tail of mortgage exposure to work through.

Early in the recession, we retrenched and repositioned our Auto Finance business, scaling back originations from $13.2 billion in 2007 to $5.3 billion in 2009. We also cut the expense base by over 25%. We launched our "Diamond Dealer" program to concentrate on Capital One's deepest and best dealer relationships. In 2010 our Auto Finance business really turned the corner. Profits were very strong, and originations grew to nearly $8 billion. By the second half of 2010, originations were running at an annualized rate of over $9 billion. Credit improved dramatically, with charge-offs falling from 4.55% to just 2.65%. Capital One Auto Finance remains one of the industry's best-positioned national players.

We converted Chevy Chase Bank to the Capital One brand in 2010. Capital One is the only top-ten bank headquartered in the nation's capital. We have the most branches and ATMs in the Washington, D.C., metropolitan area, which is one of the the premier banking markets in the country.

In 2010 we also built a unified, scalable banking infrastructure across our footprint, from New York and New Jersey to Washington to Louisiana and Texas. The common platform means better customer service, lower operational risk, and lower costs. It also creates new revenue opportunities.

Commercial Banking held its own through the worst of the commercial credit cycle

Despite the distress in commercial real estate and mid-market commercial lending markets, our Commercial Banking business posted net income of $160 million in 2010. Revenue increased 12% as a result of improving loan margins, growth in our deposit book, and higher non-interest income. Credit performance remains relatively strong, with the charge-off rate in the 1% range. Non-performing assets were down $248 million at year-end from their peak in the first quarter of 2010. Deposits grew by $2.2 billion, to $22.6 billion, while deposit interest expense improved 19 basis points, to just 0.61%.

With the worst of the commercial credit cycle behind us, we expect to grow low-risk commercial loans in 2011. Increased emphasis on treasury management services and stronger relationships with our commercial customers drove the growth in non-interest income in 2010 and is expected to generate more revenue growth opportunities in 2011. We're delivering strong commercial deposit growth at attractive spreads, and deposit growth brings new customers and strengthens existing relationships. We can generate future loan and revenue growth by expanding these relationships.

Our Commercial and Small Business bankers have the expertise and are willing to go the extra mile to help make our customers successful.

Our balance sheet is a major source of strength

Throughout the recession, our analytical rigor and vigilance kept our balance sheet strong, reduced our risk, and helped us identify and seize opportunities as they arose in the rapidly changing economic landscape.

In 2010 we added $8.8 billion in retail deposits, which are a stable, low-cost source of funding. At year-end, our loan-to-deposit ratio had fallen to 1.03. We also have a $41.5 billion portfolio of high-quality securities, which is a storehouse of readily available liquidity and a source of significant earnings.

We ended the year in a strong capital position. Our tangible common equity (TCE) ratio was 6.9%, and our Tier 1 common ratio was 8.8%. We are one of the few banks that did not have to significantly dilute shareholders with costly equity raises to address the challenges of the Great Recession.

We continue to be very comfortable with our capital and its expected trajectory. TCE has improved consistently. Regulatory ratios should rise steadily after a temporary decline in the first quarter of 2011, resulting from the final phase-in of the new accounting rules and an increase in disallowed deferred tax assets that came with the turn of the calendar year. We expect that Basel III, the latest update of the international Basel Accords on financial regulation, will not have significant effects on Capital One. In 2011, years before the new accords take effect, our capital should exceed Basel III required minimums and conservation buffers.

Our powerful brand is a critical strategic asset

The long-term investment we have made in building a strong brand continues to pay off. Capital One is now one of a handful of financial services companies with a brand that has achieved near-universal awareness and the scale to advertise on a national level. A brand is a promise, and brand strength comes from keeping the promise year after year, with great products, great value, and great service. For us, that means constant innovation and constant improvement. We also work hard to make sure that Capital One shareholders are getting the most out of our media expenditures. Our ads continue to outscore those of our competitors, ensuring that consumers remember our ads, our brand, and the compelling reasons to do business with Capital One. Our "Visigoths" were recently recognized by *Ad Age*® magazine as one of the top-ten advertising icons of the decade.

We also use high-profile sponsorship of college sports to maintain the visibility of our brand, with events such as the Capital One Bowl, ESPN® Bowl Week, and the Capital One Mascot Challenge. In 2010 Capital One became an official NCAA® Corporate Champion and the official bank and credit card of the NCAA®. We also introduced the Capital One Cup, an annual award for cumulative on-field performance in college athletics. The winning schools will take home the Capital One Cup Trophy plus $200,000 in graduate-level scholarships for student athletes.

Capital One's TV ads continue to lead the banking industry in brand association and enjoyment, and our "Visigoths" have just been named one of the top-ten advertising icons of the last decade.

We’re committed to helping the communities where our customers and associates live and work

When our communities thrive, so do our people, and so does Capital One. That’s why we’re helping to expand economic opportunities for our communities through a comprehensive approach we call Investing for Good. We’re providing millions of dollars in philanthropic grants. We’re financing multi-million-dollar affordable-housing developments and providing access to banking products and services. And our great people are generously giving their time and talents back to the communities where they live.

In 2010 Capital One associates taught the basics of money management to more than 60,000 people – students, consumers new to banking, first-time home buyers, small-business owners, and others.

In 2010 Capital One associates mentored small-business owners to improve their managerial skills and financial know-how, worked with first-time home buyers to prepare them for the responsibilities of home ownership and to help them gain access to affordable and sustainable mortgages, and taught the basics of money management to more than 60,000 people. Our local bankers are out every day meeting with customers, residents, and community leaders to listen to their needs and connect them with the services and resources they need. Our associates volunteer their expertise and time to scores of community organizations – 126,500 hours in 2010 alone. Over 100 of our executives serve on non-profit boards.

These efforts are delivering significant results to our communities. Here are just a few examples from 2010:

- In Washington we have provided more than $60 million in specialized financing to build or renovate more than 450 apartments for seniors, working families, and low-income residents.
- In New Orleans we continue to invest in the rebuilding of the city by financing housing for low- and middle-income residents. We also established a program to train residents as teacher’s aides for

neighborhood schools and opened Capital One savings accounts for them, matching their savings dollar for dollar up to $1,000.

- In Harlem, where we're working with the Fortune Society and the Jonathan Rose Companies, we provided financing of $39 million for Castle Gardens. A mixed-use, "green" development with 113 apartments, Castle Gardens houses formerly homeless individuals as well as low-income individuals and families. The start-up of the cyber cafe on the premises was funded by Capital One.

Investing for Good is transforming communities and changing lives across our banking footprint.

Capital One sees education as one of its most important long-term investments, and our associates are helping students of all ages learn the skills they need to succeed in school, through programs like READesign and Texas Girls Inc.

We've emerged from the Great Recession stronger than ever

We have always managed the company to be strong and resilient in both good times and bad. We transformed ourselves into a deposit-funded bank before the capital markets collapsed. We purposely chose the most resilient businesses (e.g., credit cards and deposits) and managed them tightly for resiliency. We hardwired recession assumptions into every consumer loan we booked. These bold strategic moves and our choice to build conservatism into our credit risk decisions enabled us to remain resilient and profitable throughout the financial crisis.

For years, we built significant excess liquidity and maintained it even though we now have ample deposit funding. We conservatively managed capital, which positioned us to minimize dilution and to make key investments and acquisitions during the recession, such as the acquisition of Chevy Chase Bank – the leading bank in our hometown of greater Washington, D.C.

We established customer practices with a focus on building a long-term customer franchise well before regulatory and legislative intervention, which decreased our reliance on revenue from unsustainable industry practices and enabled us to adapt to the CARD Act with our business model intact. And we invested in building a well-recognized national brand which has become a critical differentiator for us in national lending and banking.

From our inception, we have been rigorously focused on defining our strategic destination and then working backwards from that destination to build a great franchise with structural competitive advantages. The recession and financial reforms put our strategy, and those of all other financial institutions, to the test. Our strategy paid off. We have emerged well-positioned to drive profitable growth and continue to create lasting shareholder value.

Although we are much smaller than our largest competitors, we have positioned ourselves with relevant scale in each of our businesses and the opportunity to gain share and generate exceptional returns. We are a leading national consumer lender with industry-leading returns. We have local-scale positions across our retail bank business in very attractive markets, with the ability to generate strong deposit growth. We also have a low-risk local commercial bank with a strategic focus on establishing primary banking relationships with high-quality clients.

In addition to our advantaged bone structure, we have several distinctive core strengths. We have a powerful national brand and a massive customer base. With our Information Based Strategy and a foundation of franchise-building customer practices, our card business is well-positioned to grow share. We have deep risk management capabilities that have been honed and proven through credit cycles. We have the balance sheet and infrastructure to selectively drive growth through attractive acquisitions. And, we have a differentiated talent model that has made us a magnet for talented people.

Great people have always been essential to Capital One. From the beginning, we've consistently focused on hiring great people and giving them a chance to be great. Over the years, our Board of Directors, our Executive Committee, and all of our associates have navigated seemingly insurmountable challenges and delivered amazing results with their intellectual horsepower. They've been driven by a hunger to accomplish great things and make a positive difference in the world. They've displayed tremendous heart and compassion for our customers, our communities, and each other. And, they've maintained their humility through good times and bad. These "4 H's" – horsepower, hunger, heart, and humility – define the people and the culture of Capital One.

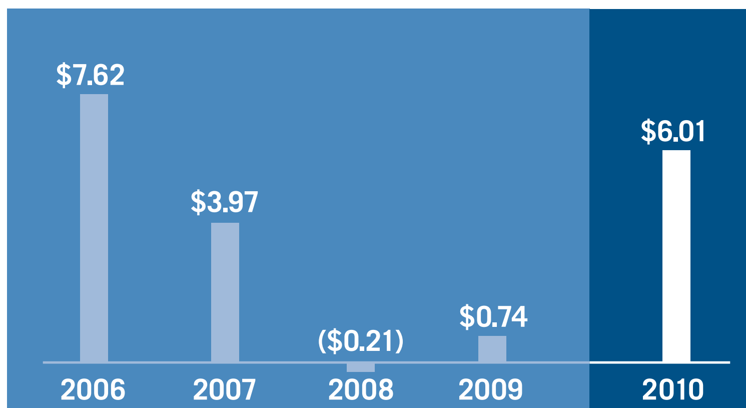
Our great people powered us through one of the banking industry's most challenging periods. They led with their values on display. Achieving excellence. Doing the right thing. Treating our customers and colleagues with dignity. Delivering results. Our advantaged strategic position and our great people empower us to continue to compete and win in each of our markets and to deliver compelling value for our customers, our associates, our communities, and our shareholders in 2011 and well beyond.

Richard D. Fairbank
Chairman, CEO and President

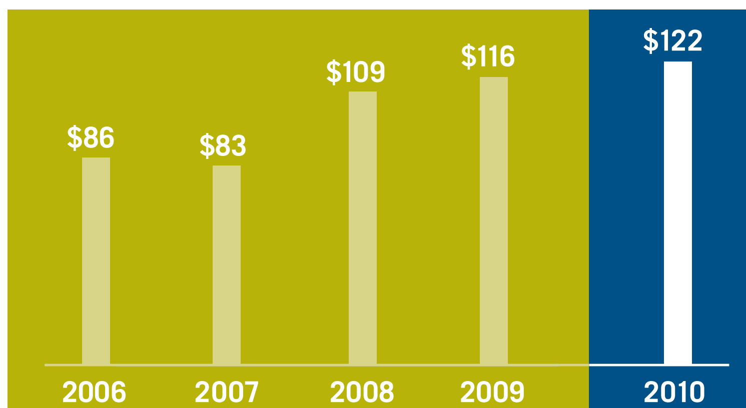
FINANCIAL SUMMARY

Diluted Earnings Per Share From Continuing Operations

Diluted Earnings Per Share



Deposits ($ In Billions)



* 2008 data excludes goodwill impairment charge of $811 million.

(Dollars in millions, except per share data)	2010	2009
Income Statement[1]:		
Net interest income	$ 12,457	$ 12,089
Non-interest income	3,714	4,747
Total revenue	16,171	16,836
Provision for loan losses	3,907	8,083
Marketing expenses	958	588
Restructuring expenses	—	119
Operating expenses	6,975	6,710
Income from continuing operations before taxes	4,330	1,336
Effective income tax rate	29.6 %	26.2 %
Income from continuing operations, net of tax	3,050	987
Loss from discontinued operations, net of tax	(307)	(103)
Net income	$ 2,743	$ 884
Preferred stock dividends	—	(564)
Net income available to common shareholders	$ 2,743	$ 320
Common Share Statistics:		
Basic EPS:		
Net income from continuing operations	$ 6.74	$ 0.99
Net loss from discontinued operations	(0.67)	(0.24)
Net income	$ 6.07	$ 0.75
Diluted EPS:		
Net income from continuing operations	$ 6.68	$ 0.98
Net loss from discontinued operations	(0.67)	(0.24)
Net income	$ 6.01	0.74
Dividends	$ 0.20	$ 0.53
Reported Balance Sheet Statistics:		
Loans held for investment	$ 125,947	$ 90,619
Total assets	197,503	169,646
Interest-bearing deposits	107,162	102,370
Total deposits	122,210	115,809
Reported Average Balances:		
Average loans held for investment	$ 128,526	$ 99,787
Average earning assets	175,730	145,293
Average total assets	200,114	171,598
Average stockholders' equity	24,941	26,606
Reported Credit Quality Metrics:		
Allowance for loan losses	$ 5,628	$ 4,127
Allowance as a % of reported loans held for investment	4.47 %	4.55 %
Net charge-offs	$ 6,651	$ 4,568
Net charge-off rate	5.18 %	4.58 %
30+ day performing delinquency rate	3.52	3.98
Reported Performance Metrics:		
Revenue growth	(3.95) %	(6.55) %
Net interest margin	7.09	5.30
Revenue margin	9.20	8.94
Risk-adjusted margin	5.42	5.79
Return on average assets	1.52	0.58
Return on average equity	12.23	3.71
Full-time equivalent employees (in thousands)	25.7	25.9
Managed Balance Sheet Metrics:		
Loans held for investment	$ 125,947	$ 136,803
Total assets	197,142	212,390
Average loans held for investment	128,622	143,514
Average total assets	200,142	212,633
Tangible common equity (TCE) ratio	6.86 %	6.30 %
Managed Performance Metrics:		
Net interest margin	7.09 %	6.50 %
Revenue margin	9.20	9.05
Risk-adjusted margin	5.42	4.53
Net charge-off rate	5.18	5.87
30+ day performing delinquency rate	3.52	4.62
Efficiency ratio[2]	49.06	43.35
Period-end total loan accounts (in millions)	37.4	37.8
Full-time equivalent employees (in thousands)	25.7	25.9

(1) 2009 amounts represent our managed results.
(2) Excludes restructuring expenses.

DIRECTORS AND EXECUTIVE OFFICERS

Capital One Financial Corporation
Board of Directors

Richard D. Fairbank
Chairman, CEO and President
Capital One Financial Corporation

E. R. Campbell[C, F]
Former Chairman
Hibernia Corporation

W. Ronald Dietz[A, F]
Vice Chairman; Former President and CEO
W.M. Putnam Company

Patrick W. Gross[A, C, G]
Chairman
The Lovell Group

Ann Fritz Hackett[A, C, G]
President
Horizon Consulting Group

Lewis Hay III[C, F, G]
Chairman and CEO
NextEra Energy, Inc.

Pierre E. Leroy[A, C, G]
Former President
Worldwide Construction & Forestry Division
and Worldwide Parts Division
Deere & Company

Mayo A. Shattuck III[C, F]
Chairman, CEO and President
Constellation Energy Group

Bradford H. Warner[A, F]
Former Head of Premier and
Small Business Banking
Bank of America Corporation

Capital One Financial Corporation
Executive Officers

Richard D. Fairbank
Chairman, CEO and President

Robert M. Alexander
Chief Information Officer

Jory A. Berson
Chief Human Resources Officer

Lynn A. Carter
President, Banking

John G. Finneran, Jr.
General Counsel and Corporate Secretary

Frank G. LaPrade, III
Chief Enterprise Services Officer

Gary L. Perlin
Chief Financial Officer

Peter A. Schnall
Chief Risk Officer

Ryan M. Schneider
President, Card

Sanjiv Yajnik
President, Financial Services

[A] Audit and Risk Committee
[C] Compensation Committee
[F] Finance and Trust Oversight Committee
[G] Governance and Nominating Committee

NOTE 14—EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

(Dollars and Shares in millions, except per share data)	Year Ended December 31, 2010	2009	2008
Numerator:			
Income from continuing operations, net of tax	**$ 3,050**	$ 987	$ 85
Loss from discontinued operations, net of tax	**(307)**	(103)	(131)
Net income (loss)	**2,743**	884	(46)
Preferred stock dividends and accretion of discount	**0**	(564)	(33)
Net income (loss) available to common stockholders	**$ 2,743**	$ 320	$ (79)
Denominator:			
Denominator for basic earnings per share-Weighted-average shares	**452**	428	376
Effect of dilutive securities [1] :			
Stock options	**1**	0	0
Contingently issuable shares	**0**	0	0
Restricted stock and units	**3**	3	2
Dilutive potential common shares	**4**	3	2
Denominator for diluted earnings per share-Adjusted weighted-average shares	**456**	431	378
Basic earnings per share			
Income from continuing operations	**$ 6.74**	$ 0.99	$ 0.14
Loss from discontinued operations	**(0.67)**	(0.24)	(0.35)
Net income (loss)	**$ 6.07**	$ 0.75	$ (0.21)
Diluted earnings per share			
Income from continuing operations	**$ 6.68**	$ 0.98	$ 0.14
Loss from discontinued operations	**(0.67)**	(0.24)	(0.35)
Net income (loss)	**$ 6.01**	$ 0.74	$ (0.21)

[1] Excluded from the computation of diluted earnings per share was 26.8 million, 34.8 million and 27.7 million of awards, options or warrants, during 2010, 2009 and 2008, respectively, because their inclusion would be antidilutive.

NOTE 15—OTHER NON-INTEREST EXPENSE

The following table represents the components of non-interest expense for 2010, 2009 and 2008:

(Dollars in millions)	Year Ended December 31, 2010	2009	2008
Professional services	**$ 916**	$ 796	$ 806
Collections	**596**	599	569
Fraud losses	**80**	86	106
Bankcard association assessments	**221**	215	195
Core deposit intangible amortization	**203**	216	191
Other	**667**	629	1,102
Total	**$ 2,683**	$ 2,541	$ 2,969

NOTE 16—STOCK-BASED COMPENSATION PLAN

Stock Plans

We have one active stock-based employee compensation plan. Under the plan, we reserve common shares for issuance in various forms including incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock units, and performance share units.

The following table provides the number of reserved common shares and the number of common shares available for future issuance for our active stock-based compensation plan as of December 31, 2010 and 2009. The ability to issue grants from the 1999 Non-Employee Directors Stock Incentive Plan was terminated in 2009.

(In thousands)		Available For Issuance December 31		
Plan Name	Shares Reserved	2010	2009	2008
2004 Stock Incentive Plan	40,000[(1)]	**16,225**	17,789	4,506

(1) On April 20, 2009 the Board authorized an increase in shares reserved of 20 million shares to 40 million shares in total.

Generally the exercise price of stock options, or value of restricted stock awards, will equal the fair market value of our common stock on the date of grant. The maximum contractual term for options is ten years, and option vesting is determined at the time of grant. The vesting for most options is 33 1/3 percent per year beginning with the first anniversary of the grant date. For restricted stock granted before 2010, the vesting was usually 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date. For restricted stock granted in 2010, the vesting is usually 33 1/3 percent per year beginning with the first anniversary of the grant date.

We also issue cash equity units which are recorded as liabilities as the expense is recognized. Cash equity units are settled with a cash payment for each unit vested equal to the average fair market value of our common stock for the 20 trading days preceding the vesting date. Because they are settled in cash with no opportunity for any shares to be issued at vesting or settlement, cash equity units are not included in shares reserved or available for issuance. For cash equity units granted before 2010, the vesting was usually 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date. For cash equity units granted in 2010, vesting will usually be 33 1/3 percent per year beginning with the first anniversary of the grant date.

We recognize compensation expense on a straight line basis over the entire award's vesting period for any awards with graded vesting attributes. Total compensation expense recognized for stock-based compensation during the years 2010, 2009 and 2008 was $149 million, $146 million and $112 million, respectively. The total income tax benefit recognized in the consolidated statement of income for stock-based compensation arrangements during the years 2010, 2009 and 2008 was $52 million, $51 million and $39 million, respectively.

Stock option expense is based on the fair value per stock option, estimated at the grant date using a Black-Scholes option-pricing model. The fair value of stock options granted during 2010, 2009 and 2008 was estimated using the weighted average assumptions summarized below:

	Year Ended December 31,		
Assumptions	2010	2009	2008
Dividend yield [(1)]	**1.49%**	4.79%	3.20%
Volatility factors of stock's expected market price	**38**	43	28
Risk-free interest rate	**2.49**	1.79	2.89
Expected option lives (in years)	**5.0**	5.0	5.0

(1) In 2010, 2009, and 2008, we paid dividends at the annual rate of $0.20, $0.53, and $1.50 per share, respectively.

A summary of stock option activity under the plans as of December 31, 2010 and 2009, and changes during each year are presented below:

	Shares Subject to Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2010	**21,905**	**$ 53.58**		
Granted	**619**	**37.07**		
Exercised	**(577)**	**22.56**		
Cancelled	**(1,373)**	**65.29**		
Outstanding as of December 31, 2010	**20,574**	**$ 53.18**	**4.6 years**	**$ 83**
Exercisable as of December 31, 2010	**16,050**	**$ 58.56**	**3.8 years**	**$ 19**

	Shares Subject to Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2009	23,827	$ 59.18		
Granted	3,556	18.23		
Exercised	(356)	26.57		
Cancelled	(5,122)	56.72		
Outstanding as of December 31, 2009	21,905	$ 53.58	5.4 years	$ 73
Exercisable as of December 31, 2009	13,486	$ 60.25	3.7 years	$ 4

As of December 31, 2010, the number of shares, weighted average exercise price, aggregate intrinsic value and weighted average remaining contractual terms of stock options vested and expected to vest approximate amounts for stock options outstanding. The weighted-average fair value of options granted during the years 2010, 2009 and 2008 was $11.78, $4.56 and $9.94, respectively. Cash proceeds from the exercise of stock options were $13 million, $9 million, and $71 million for 2010, 2009 and 2008, respectively. Tax benefits realized from the exercise of stock options were $4 million, $1 million and $9 million for 2010, 2009 and 2008, respectively. The total intrinsic value of stock options exercised during the years 2010, 2009 and 2008 was $11 million, $4 million, and $27 million, respectively.

A summary of 2010 activity for restricted stock awards and units is presented below:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested as of January 1, 2010	**5,769**	**$ 29.91**
Granted	**1,595**	**36.83**
Vested	**(1,645)**	**35.79**
Cancelled	**(375)**	**28.68**
Unvested as of December 31, 2010	**5,344**	**$ 30.29**

The weighted-average grant date fair value of restricted stock granted for 2010, 2009 and 2008 was $36.83, $17.58 and $49.33, respectively. The total fair value of restricted stock vesting was $62 million, $41 million and $34 million in 2010, 2009 and 2008, respectively. We expect to recognize the unrecognized compensation cost for unvested restricted awards of $50 million as of December 31, 2010 over the next three years.

Cash equity units vesting in 2010, 2009, and 2008 resulted in cash payments to associates of $48 million, $10 million, and $30 million, respectively. These cash payments reflect the number of units vesting based on our stock price as of or for some defined period prior to the vest date. We expect to recognize the unrecognized compensation cost for unvested cash equity units of $54 million as of December 31, 2010, which calculated based on the average quarterly stock price, over the next 3 years.

2011 CEO Grant

In January 2011, our Board of Directors approved a compensation package for our CEO. This package included an opportunity to receive from 0% to 200% of the target number of 82,851 shares of our common stock based on our performance over the three-year period beginning on January 1, 2011. The package also included a grant of 608,366 nonstatutory stock options at an exercise price of $48.28 per share. The options will become fully exercisable on January 26, 2014. Upon retirement, these awards will continue to vest in accordance with the original vesting schedule. Compensation expense of $12 million related to these awards will be recognized in 2011.

2010 CEO Grant

In January 2010, our Board of Directors approved a compensation package for our CEO. This package included an opportunity to receive from 0% to 200% of the target number of 88,920 shares of our common stock based on our performance over the three-year period beginning on January 1, 2010. The package also included a grant of 559,333 nonstatutory stock options at an exercise price of $36.55 per share. The options will become fully exercisable on January 27, 2013. Upon retirement, these awards will continue to vest in accordance with the original vesting schedule. Compensation expense of $10 million related to these awards was recognized in 2010.

In 2011, our Board of Directors also approved a grant of 134,632 restricted stock units as a portion of to the 2010 compensation package for our CEO. The award will vest in full in three years and settle in cash based on our average stock price over the twenty trading days preceding the vesting date. The compensation expense of $7 million related to this award will be recognized in 2011.

2009 CEO Grant

In January 2009, our Board of Directors approved a compensation package for our CEO. This package included an opportunity to receive from 0% to 200% of the target number of 95,239 shares of our common stock based on our performance over the three-year period beginning on January 1, 2009. The package also included a grant of 970,403 nonstatutory stock options at an exercise price of $18.28 per share. The options will become fully exercisable on January 29, 2012. Both awards are subject to restrictions regarding sale or transfer of the shares received until the earlier of the date on which the U.S. Treasury no longer holds any shares of the preferred stock that we issued under the U.S. Treasury's Troubled Asset Relief Program Capital Purchase Program ("CPP") or one year after retirement from our Company. We redeemed this preferred stock in June 2009 and therefore these restrictions have lapsed. Compensation expense of $6 million related to these awards was recognized in 2009.

In 2010, our Board of Directors also approved a grant of 136,799 restricted stock units as a portion of the 2009 compensation package for our CEO. The award will vest in full in three years and settle in cash based on our average stock price over the twenty trading days preceding the vesting date. Compensation expense of $5 million related to this award was recognized in 2010.

Accelerated Vesting Option Grants

Associate Stock Purchase Plan

We maintain an Associate Stock Purchase Plan (the "Purchase Plan") which is a compensatory plan under the accounting guidance for stock-based compensation. We recognized $4 million in compensation expense for each of the years ended December 31, 2010, 2009 and 2008 under the Purchase Plan.

Under the Purchase Plan, our associates are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. To date, the amounts deducted are applied to the purchase of our unissued common or treasury stock at 85% of the current market price. Shares may also be acquired on the market. An aggregate of 8.0 million shares of common stock have been authorized for issuance under the 2002 Associate Stock Purchase Plan, of which 2.6 million and 3.4 million shares were available for issuance as of December 31, 2010 and 2009, respectively.

Dividend Reinvestment and Stock Purchase Plan

In 2002, we implemented our Dividend Reinvestment and Stock Purchase Plan ("2002 DRP"), which allows participating stockholders to purchase additional shares of our common stock through automatic reinvestment of dividends or optional cash investments. We had 7.4 million shares available for issuance under the 2002 DRP at both December 31, 2010 and 2009.

NOTE 17—EMPLOYEE BENEFIT PLANS

Retirement Plans

Defined Contribution Plan

We sponsor a contributory Associate Savings Plan (the "Plan") in which substantially all full-time and certain part-time associates are eligible to participate. We make contributions to each eligible associate's account, match a portion of associate contributions and make discretionary contributions based upon our meeting a certain earnings per share target or other performance metrics. In June 2010, we announced that we were implementing a new company contribution structure and several administrative enhancements to the Plan that were effective July 1, 2010. The new contribution structure provides a company contribution through a combination of basic and matching company contributions. We transitioned to the new contribution structure on July 1, 2010, as such, any of our discretionary contribution payout for 2010 was prorated for the period January 1, 2010 to June 30, 2010. Our contributions to this plan amounted to $118 million, $79 million and $110 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Effective December 31, 2009, the Hibernia Corporation Employee Stock Ownership Plan ("Hibernia ESOP") was merged into the Plan, and the Hibernia ESOP net assets of $34 million as of December 31, 2009 were transferred into the Plan. As a result, we had no contributions of cash or shares of our common stock to this plan in 2010 or 2009. We recognized compensation expense of $4 million in 2008 related to the ESOP.

Defined Benefit Pension and Other Postretirement Benefit Plans

We sponsor defined benefit pension plans and other postretirement benefit plans. Pension plans include a legacy frozen cash balance plan and plans assumed in the North Fork acquisition, including two qualified defined benefit pension plans and several non-qualified defined benefit pension plans. Our legacy pension plan and the two qualified pension plans from the North Fork acquisition were merged into a single plan effective December 31, 2007. Other postretirement benefit plans, including a legacy plan and plans assumed in the Hibernia and North Fork acquisitions, all of which provide medical and life insurance benefits, which were merged into a single plan effective January 1, 2008.

Our pension plans and the other postretirement benefit plans are valued using a December 31 measurement date. Our policy is to amortize prior service amounts on a straight-line basis over the average remaining years of service to full eligibility for benefits of active plan participants.

The following table sets forth, on an aggregated basis, changes in the benefit obligations and plan assets, how the funded status is recognized in the balance sheet, and the components of net periodic benefit cost:

	Year Ended December 31,			
	2010	2009	2010	2009
(Dollars in millions)	Pension Benefits		Postretirement Benefits	
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 190**	$ 190	**$ 67**	$ 74
Service cost	**2**	2	**1**	2
Interest cost	**10**	11	**3**	4
Benefits paid	**(19)**	(21)	**(4)**	(4)
Net actuarial loss (gain)	**10**	8	**(1)**	(9)
Benefit obligation at end of year	**$ 193**	$ 190	**$ 66**	$ 67
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 213**	$ 193	**$ 7**	$ 7
Actual return on plan assets	**26**	40	**1**	0
Employer contributions	**1**	1	**4**	4
Benefits paid	**(19)**	(21)	**(4)**	(4)
Fair value of plan assets at end of year	**$ 221**	$ 213	**$ 8**	$ 7
Funded status at end of year	**$ 28**	$ 23	**$ (58)**	$ (60)
Balance Sheet Presentation:				
Other assets	**$ 39**	$ 34	**$ 0**	$ 0
Other liabilities	**(11)**	(11)	**(58)**	(60)
Net amount recognized at end of year	**$ 28**	$ 23	**$ (58)**	$ (60)
Accumulated benefit obligation at end of year	**$ 193**	$ 190	**n/a**	n/a
Components of net periodic benefit cost:				
Service cost	**$ 2**	$ 2	**$ 1**	$ 2
Interest cost	**10**	11	**3**	4
Expected return on plan assets	**(15)**	(14)	**(1)**	0
Amortization of transition obligation, prior service credit, and net actuarial loss	**1**	1	**(3)**	(8)
Net periodic benefit cost	**$ (2)**	$ 0	**$ 0**	$ (2)
Changes recognized in other comprehensive income, pretax:				
Net actuarial gain	**$ 1**	$ 18	**$ 1**	$ 9
Reclassification adjustments for amounts recognized in net periodic benefit cost	**1**	1	**(3)**	(8)
Total recognized in other comprehensive income	**$ 2**	$ 19	**$ (2)**	$ 1

Pre-tax amounts recognized in accumulated other comprehensive income, which have not yet been recognized as a component of net periodic benefit cost, consist of:

(Dollars in millions)	December 31, 2010 Pension Benefits	2009 Pension Benefits	2010 Postretirement Benefits	2009 Postretirement Benefits
Transition obligation	**$ 0**	$ 0	**$ 0**	$ 0
Prior service credit	**0**	0	**11**	15
Net actuarial gain (loss)	**(58)**	(60)	**2**	0
Accumulated other comprehensive income	**$ (58)**	$ (60)	**$ 13**	$ 15

Pre-tax amounts in accumulated other comprehensive income that are expected to be recognized as decreases (increases) of net periodic benefit cost for the year ending December 31, 2010, consist of:

(Dollars in millions)	Pension Benefits	Postretirement Benefits
Prior service cost	$ 0	$ 3
Net actuarial loss gain	(1)	0
Total	$ (1)	$ 3

The following table sets forth the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets. Based on the status of our pension plans, the information presented also represents the aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

(Dollars in millions)	December 31, 2010 Pension Benefits	2009 Pension Benefits	2010 Postretirement Benefits	2009 Postretirement Benefits
Benefit obligation	**$ 193**	$ 190	**$ 66**	$ 67
Fair value of plan assets	**221**	213	**8**	7

The following table presents weighted-average assumptions used in the accounting for the plans:

	December 31, 2010 Pension Benefits	2009 Pension Benefits	2010 Postretirement Benefits	2009 Postretirement Benefits
Assumptions for benefit obligations at measurement date:				
Discount rate	**5.2%**	5.7%	**5.2%**	5.7%
Rate of compensation increase	n/a	n/a	n/a	n/a
Assumptions for periodic benefit cost for the year ended:				
Discount rate	**5.7%**	6.3%	**5.7%**	6.3%
Expected long-term rate of return on plan assets [1]	**7.5%**	7.5%	**7.5%**	7.5%
Rate of compensation increase	**n/a**	n/a	**n/a**	n/a
Assumptions for year-end valuations:				
Health care cost trend rate assumed for next year	**n/a**	n/a	**8.7%**	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**n/a**	n/a	**4.5%**	4.5%
Year the rate reaches the ultimate trend rate	**n/a**	n/a	**2028**	2028

(1) Our expected long-term rate of return on plan assets is defined as 20 years.

To develop the expected long-term rate of return on plan assets assumption, consideration was given to the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on the plan assets assumption for the portfolio.

Assumed health care trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	Year ended December 31,			
	2010		2009	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on year-end postretirement benefit obligation	**$ 6**	**$ (5)**	$ 6	$ (5)
Effect on total service and interest cost components	**0**	**0**	1	(1)

Plan Assets

The qualified defined benefit pension plan asset allocations as of the annual measurement dates are as follows:

	December 31,	
	2010	2009
Common collective trusts[(1)]	**73.9%**	69.4%
Money market fund	**3.2**	30.1
Limited partnerships	**0.0**	0.5
Corporate bonds (S&P rating of A or higher)	**0.8**	0.0
Corporate bonds (S&P rating of lower than A)	**1.7**	0.0
Government securities	**20.1**	0.0
Mortgage backed securities	**0.3**	0.0
Total	**100.0%**	100.0%

(1) Common collective trusts include domestic and international equity securities.

The investment guidelines provide the following asset allocation targets and ranges: domestic equity target of 50% and allowable range of 45% to 55%, international equity target of 20% and allowable range of 15% to 25%, and fixed income securities target of 30% and allowable range of 25% to 40%.

Plan assets are invested using a total return investment approach whereby a mix of equity securities and debt securities are used to preserve asset values, diversify risk and enhance our ability to achieve our long-term investment return benchmark. Investment strategies and asset allocations are based on careful consideration of plan liabilities, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on a quarterly basis.

Plan assets are managed in a balanced portfolio comprised of three major components: a domestic equity portion, an international equity portion and a domestic fixed income portion. The expected role of plan equity investments is to maximize the long-term real growth of fund assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of fund equity investments.

Fair Values Measurement

For information on fair value measurements, including descriptions of Level 1, 2 and 3 of the fair value hierarchy and the valuation methods we utilize, see "Note 1—Summary of Significant Accounting Policies" and "Note 19—Fair Value of Financial Instruments."

Plan Assets Measured at Fair Value on a Recurring Basis

(Dollars in millions)	December 31, 2010			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Plan Assets				
Common collective trusts	**$ 0**	**$ 169**	**$ 0**	**$ 169**
Short-term investment fund	**0**	**7**	**0**	**7**
Corporate bonds (S&P rating of A or higher)	**0**	**2**	**0**	**2**
Corporate bonds (S&P rating of lower than A)	**0**	**4**	**0**	**4**
Government securities	**0**	**46**	**0**	**46**
Mortgage-backed securities	**0**	**1**	**0**	**1**
Municipal bonds	**0**	**0**	**0**	**0**
Total Plan Assets	**$ 0**	**$ 229**	**$ 0**	**$ 229**

(Dollars in millions)	December 31, 2009			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Plan Assets				
Common collective trusts	$ 0	$ 153	$ 0	$ 153
Money market fund	66	0	0	66
Limited partnerships	0	0	1	1
Total Plan Assets	$ 66	$ 153	$ 1	$ 220

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2010.

Level 3 Instruments Only

(Dollars in millions)	Year Ended December 31, 2010
	Limited Partnerships
Balance, January 1, 2010	**$ 1**
Total realized and unrealized losses:	
Included in net income	**0**
Settlements, net	**(1)**
Transfers in(out) of Level 3	**0**
Balance, December 31, 2010	**$ 0**
Total unrealized gains (losses) included in net income related to assets still held as of December 31, 2010	**$ 0**

(Dollars in millions)	Year Ended December 31, 2009
	Limited Partnerships
Balance, January 1, 2009	**$ 10**
Total realized and unrealized losses:	
Included in net income	**(1)**
Settlements, net	**(8)**
Transfers in(out) of Level 3	**0**
Balance, December 31, 2009	**$ 1**
Total unrealized gains (losses) included in net income related to assets still held as of December 31, 2009	**$ (1)**

Expected future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Dollars in millions)	Pension Benefits	Postretirement Benefits
2011	$ 14	$ 4
2012	14	4
2013	13	5
2014	14	5
2015	13	5
2016 - 2020	63	26

In 2011, $1 million in contributions are expected to be made to the pension plans, and $2 million in contributions are expected to be made to other postretirement benefits plans. In addition, the estimated payment for 2010 net benefits of $2 million will be paid from the postretirement benefit plan's assets early in 2011.

NOTE 18—INCOME TAXES

We account for income taxes in accordance with the accounting guidance prescribed by the FASB, recognizing the current and deferred tax consequences of all transactions that have been recognized in the consolidated financial statements using the provisions of enacted tax laws. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets to an amount that is more likely than not to be realized.

Significant components of the provision for income taxes attributable to continuing operations were as follows:

	Year Ended December 31,		
(Dollars in millions)	2010	2009	2008
Current income tax provision:			
Federal taxes	**$ (152)**	$ 278	$ 1,069
State taxes	**31**	35	53
International taxes	**122**	22	32
Total current provision	**$ 1**	$ 335	$ 1,154
Deferred income tax provision:			
Federal taxes	**$ 1,121**	$ 9	$ (644)
State taxes	**87**	(6)	(3)
International taxes	**71**	11	(10)
Total deferred provision (benefit)	**$ 1,279**	$ 14	$ (657)
Total income tax provision	**$ 1,280**	$ 349	$ 497

Income tax benefits of $2 million, $793 million and $32 million in 2010, 2009 and 2008, respectively, were allocated directly to reduce goodwill from acquisitions.

Income tax provision (benefit) reported in stockholders' equity was as follows:

	Year Ended December 31,		
(Dollars in millions)	2010	2009	2008
Foreign currency translation gains (losses)	**$ 6**	$ (9)	$ 7
Net unrealized securities gains (losses)	**48**	521	(421)
Other-than-temporary impairment on securities	**27**	0	0
Net unrealized derivative gains	**5**	61	28
Adoption of new consolidation accounting standards	**(1,642)**	0	0
Employee stock plans	**10**	16	11
Employee retirement plans	**0**	7	(55)
Total income tax provision (benefit)	**$ (1,546)**	$ 596	$ (430)

The reconciliation of income tax attributable to continuing operations, computed at the U.S. federal statutory tax rate, to income tax expense was:

(Dollars in millions)	Year Ended December 31, 2010	2009	2008
Income tax at U.S. federal statutory tax rate	**35.00%**	35.00%	35.00%
State taxes, net of federal benefit	**1.28**	2.40	3.45
Resolution of federal income tax issues and audits	**(2.54)**	(4.63)	0
Other foreign tax differences, net	**(0.54)**	(0.20)	1.97
Goodwill impairment	**0**	0	47.67
Other, including nontaxable income and general business tax credits	**(3.64)**	(6.41)	(2.62)
Income taxes	**29.56%**	26.16%	85.47%

During 2010, 2009 and 2008, our income tax expense was reduced by $110 million, $62 million and zero, respectively, due to the resolution of certain tax issues and audits for prior years with the Internal Revenue Service (“IRS”). This reduction represented the release of previous accruals for potential audit and litigation adjustments which were subsequently settled or eliminated and further refinement of existing tax exposures.

Significant components of our deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

(Dollars in millions)	December 31, 2010	2009
Deferred tax assets:		
Allowance for loan and lease losses	**$ 1,950**	$ 1,496
Unearned income	**85**	206
Net unrealized losses on securities and derivative instruments	**0**	0
Employee stock plans	**162**	147
Rewards & sweepstakes programs	**525**	473
Valuation difference of acquired loans	**503**	690
Representation & warranty reserve	**302**	86
Employee benefits	**119**	123
Securitizations	**13**	91
Foreign tax credit carryforward	**87**	131
Other foreign deferred taxes	**50**	0
Other assets	**287**	378
Subtotal	**4,083**	3,821
Valuation allowance	**(130)**	(109)
Total deferred tax assets	**3,953**	3,712
Deferred tax liabilities:		
Original issue discount	**574**	715
Property & equipment	**66**	39
Prepaid expenses	**13**	9
Leasing activities	**46**	23
Core deposit and other intangibles	**348**	406
Servicing assets	**48**	83
Net unrealized gains on securities and derivative instruments	**36**	32
Other foreign deferred taxes	**0**	39
Other liabilities	**107**	90
Total deferred tax liabilities	**1,238**	1,436
Net deferred tax assets	**$ 2,715**	$ 2,276

We have state net operating loss carryforwards with a tax value of $143 million that expire from 2011 to 2030. We have foreign tax credit carryforwards of $87 million that expire in 2014 through 2018.

The valuation allowance was increased by $21 million to adjust the tax benefit of certain state deferred tax assets and net operating loss carryforwards to the amount that we have determined is more likely than not to be realized.

The deferred tax liability for original issue discount represents interchange, late fees, cash advance fees and overlimit fees. These items are generally treated as original issue discount ("OID") for tax purposes and recognized over the life of the related credit card receivables. These items are recognized in the income statement as income in the year earned. For income statement purposes, late fees are reported as interest income, and interchange, cash advance fees and overlimit fees are reported as non-interest income.

(Dollars in millions)	December 31, 2010	December 31, 2009
Original Issue discount:		
OID—late fees	**$ 387**	$ 512
OID—all other	**1,192**	1,461
Gross original issue discount	**1,579**	1,973
Net deferred tax liability	**$ 574**	$ 715

The accounting guidance for income taxes clarifies the accounting for uncertainty in income taxes, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides rules on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During 2010, 2009 and 2008, $(62) million, $(7) million and $30 million, respectively, of net interest and penalties was included in income tax expense. The accrued balance of interest and penalties related to unrecognized tax benefits is presented in the table below.

A reconciliation of the change in unrecognized tax benefits from January 1, 2009 to December 31, 2010 is as follows:

(Dollars in millions)	Gross Unrecognized Tax Benefits	Accrued Interest and Penalties	Gross Tax, Interest and Penalties
Balance at January 1, 2009	$ 561	$ 176	$ 737
Additions for tax positions related to the current year	8	0	8
Additions for tax positions related to prior years	43	35	78
Reductions for tax positions related to prior years due to IRS and other settlements	(255)	(110)	(365)
Additions for tax positions related to acquired entities in prior years, offset to goodwill	7	1	8
Other reductions for tax positions related to prior years	(5)	(2)	(7)
Balance at December 31, 2009	**359**	**100**	**459**
Additions for tax positions related to the current year	**0**	**0**	**0**
Additions for tax positions related to prior years	**0**	**8**	**8**
Reductions for tax positions related to prior years due to IRS and other settlements	**(72)**	**(43)**	**(115)**
Additions for tax positions related to acquired entities in prior years, offset to goodwill	**0**	**0**	**0**
Other reductions for tax positions related to prior years	**(2)**	**0**	**(2)**
Balance at December 31, 2010	**$ 285**	**$ 65**	**$ 350**
Portion of balance at December 31, 2010 that, if recognized, would impact the effective income tax rate	**$ 108**	**$ 42**	**$ 150**

We are subject to examination by the IRS and other tax authorities in certain countries and states in which we have significant business operations. The tax years subject to examination vary by jurisdiction. The IRS is currently examining our federal income tax returns for the years 2007 and 2008. During 2009, we made cash payments to the IRS related to concluded examinations for 2005 and 2006, which resulted in a reduction of approximately $195 million in the balance of net unrecognized tax benefits. During 2010, no payments were made to the IRS to reduce the balance of net unrecognized tax benefits.

On April 9, 2010, the U.S. Tax Court entered a decision in our pending case with respect to certain tax issues for the years 1995 to 1999, with both parties prevailing on certain issues. On July 6, 2010, we appealed two issues to the Fourth Circuit Court of Appeals. The IRS prevailed on these issues in the Tax Court. The IRS did not appeal the two issues for which the Tax Court ruled in our favor and the Tax Court's decision on those issues is final. As a result of the non-appeal by the IRS, we reduced the amount of unrecognized tax benefits with respect to these issues by approximately $56 million. With respect to the issues still pending on appeal, the ultimate outcome remains uncertain and may also impact tax years after 1999. It is reasonably possible that a settlement related to these timing issues may be made within twelve months of the reporting date. At this time, an estimate of the potential change to the amount of unrecognized tax benefits resulting from such a settlement cannot be made.

As of December 31, 2010, U.S. income taxes and foreign withholding taxes have not been provided on approximately $633 million of unremitted earnings of our subsidiaries operating outside the U.S., in accordance with the guidance for accounting for income taxes in special areas. These earnings are considered by management to be invested indefinitely. Upon repatriation of these earnings, we could be subject to both U.S. income taxes (subject to possible adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability and foreign withholding tax on these unremitted earnings is not practicable at this time because such liability is dependent upon circumstances existing if and when remittance occurs.

As of December 31, 2010, U.S. income taxes have not been provided for approximately $287 million of previously acquired thrift bad debt reserves created for tax purposes as of December 31, 1987. These amounts, acquired as a result of the merger with North Fork Bancorporation, Inc. and the acquisition of Chevy Chase Bank, F.S.B., are subject to recapture in the unlikely event that CONA, as successor to North Fork Bank and Chevy Chase Bank F.S.B., makes distributions in excess of earnings and profits, redeems its stock, or liquidates.

NOTE 19—FAIR VALUE OF FINANCIAL INSTRUMENTS

Under applicable accounting guidance, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We determine the fair values of our financial instruments based on the fair value hierarchy established under applicable accounting guidance which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value. We did not make any material fair value option elections as of and for the years ended December 31, 2010 and 2009. For a detailed discussion regarding the fair value hierarchy and how we measure fair value, see “Note 1—Summary of Significant Accounting Policies.”

Level 1, 2 and 3 Valuation Techniques

Financial instruments are considered Level 1 when the valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of December 31, 2010 and 2009:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	December 31, 2010			
	Fair Value Measurements Using			Assets/ Liabilities
(Dollars in millions)	Level 1	Level 2	Level 3	at Fair Value
Assets				
Securities available for sale:				
U.S. Treasury and other U.S. Agency	**$ 386**	**$ 314**	**$ 0**	**$ 700**
Collateralized mortgage obligations	**0**	**13,277**	**308**	**13,585**
Mortgage-backed securities	**0**	**16,394**	**270**	**16,664**
Asset-backed securities	**0**	**9,953**	**13**	**9,966**
Other	**293**	**322**	**7**	**622**
Total securities available for sale	**679**	**40,260**	**598**	**41,537**
Other assets:				
Mortgage servicing rights	**0**	**0**	**141**	**141**
Derivative receivables[1] [2]	**8**	**1,265**	**46**	**1,319**
Retained interests in securitization	**0**	**0**	**117**	**117**
Total Assets	**$ 687**	**$ 41,525**	**$ 902**	**$ 43,114**
Liabilities				
Other liabilities:				
Derivative payables[1]	**$ (18)**	**$ (575)**	**$ (43)**	**$ (636)**
Total Liabilities	**$ (18)**	**$ (575)**	**$ (43)**	**$ (636)**

	December 31, 2009			
	Fair Value Measurements Using			Assets/ Liabilities
(Dollars in millions)	Level 1	Level 2	Level 3	at Fair Value
Assets				
Securities available for sale:				
U.S. Treasury and other U.S. Agency	$ 392	$ 477	$ 0	$ 869
Collateralized mortgage obligations	0	8,656	982	9,638
Mortgage-backed securities	0	20,198	486	20,684
Asset-backed securities	0	7,179	13	7,192
Other	73	349	25	447
Total securities available for sale	465	36,859	1,506	38,830
Other assets:				
Mortgage servicing rights	0	0	240	240
Derivative receivables[1][2]	4	625	440	1,069
Retained interests in securitizations	0	0	3,945	3,945
Total Assets	$ 469	$ 37,484	$ 6,131	$ 44,084
Liabilities				
Other liabilities:				
Derivative payables[1] [2]	$ 8	$ 366	$ 33	$ 407
Total Liabilities	$ 8	$ 366	$ 33	$ 407

(1) We do not offset the fair value of derivative contracts in a loss position against the fair value of contracts in a gain position. We also do not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

(2) Does not reflect $20 million and $4 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of December 31, 2010 and 2009, respectively. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

The determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

During 2010, we had minimal movements between Levels 1 and 2. In connection with the adoption of the new consolidation accounting standards on January 1, 2010, retained interests in securitizations, which were considered a Level 3 security, were reclassified to loans held for investment when the underlying trusts were consolidated.

Level 3 Instruments Only

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Year Ended December 31, 2010				
(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, January 1, 2010	**$ 1,506**	**$ 240**	**$ 440**	**$ 3,945**	**$ 33**
Total realized and unrealized gains (losses):					
Included in net income	**(3)**	**(82)**	**5**	**9**	**11**
Included in other comprehensive income	**(94)**	**0**	**0**	**0**	**0**
Purchases, sales, issuances and settlements, net	**40**	**(17)**	**4**	**(86)**	**1**
Impact of adoption of consolidation standards	**0**	**0**	**(401)**	**(3,751)**	**0**
Transfers in to Level 3[4]	**1,206**	**0**	**0**	**0**	**(2)**
Transfers out of Level 3 [4]	**(2,057)**	**0**	**(2)**	**0**	**0**
Balance, December 31, 2010	**$ 598**	**$ 141**	**$ 46**	**$ 117**	**$ 43**
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of December 31, 2010[5]	$ (3)	$ (82)	$ 5	$ 0	$ 11

	Year Ended December 31, 2010					
(Dollars in millions)	U.S. Treasury & Agency	Collateralized Mortgage Obligations	Mortgage-backed Securities	Asset-backed Securities	Other	Total
Securities Available for Sale						
Balance, January 1, 2010	$ 0	$ 982	$ 486	$ 13	$ 25	$ 1,506
Total realized and unrealized gains (losses):						
Included in net income	0	(3)	0	0	0	(3)
Included in other comprehensive income	0	(58)	(34)	(2)	0	(94)
Purchases, sales, issuances and settlements, net	0	(30)	0	70	0	40
Transfers in to Level 3 [4]	0	503	653	50	0	1,206
Transfers out of Level 3 [4]	0	(1,086)	(835)	(118)	(18)	(2,057)
Balance, December 31, 2010	$ 0	$ 308	$ 270	$ 13	$ 7	$ 598
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of December 31, 2010[5]	$ 0	$ (3)	$ 0	$ 0	$ 0	$ (3)

(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
	Year Ended December 31, 2009				
Balance, January 1, 2009	$ 2,380	$ 151	$ 60	$ 1,470	$ 61
Total realized and unrealized gains (losses):					
Included in net income	0	(6)[1]	(214)	(131)	(28)
Included in other comprehensive income	(168)	0	0	114	0
Purchases, sales, issuances and settlements, net	(115)	95	38	2,492	4
Transfers in/(out) of Level 3	(591)	0	556	0	(4)
Balance, December 31, 2009	$ 1,506	$ 240	$ 440	$ 3,945	$ 33
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of December 31, 2009[5]	$ 0	$ (6)	$ (214)	$ 71	$ (28)

(Dollars in millions)	U.S. Treasury & Agency	Collateralized Mortgage Obligations	Mortgage-backed Securities	Asset-backed Securities	Other	Total
	Year Ended December 31, 2009					
Securities Available for Sale						
Balance, January 1, 2009	$ 0	$ 1,580	$ 773	$ 0	$ 27	$ 2,380
Total realized and unrealized gains (losses):						
Included in net income	0	0	0	0	0	0
Included in other comprehensive income	0	(175)	7	0	0	(168)
Purchases, sales, issuances and settlements, net	0	(235)	48	74	(2)	(115)
Transfers in/out of Level 3 [4]	0	(188)	(342)	(61)	0	(591)
Balance, December 31, 2009	$ 0	$ 982	$ 486	$ 13	$ 25	$ 1,506
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of December 31, 2009[5]	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

(1) Gains (losses) related to Level 3 mortgage servicing rights are reported in mortgage servicing and other income, which is a component of non-interest income.

(2) An end of quarter convention is used to measure derivative activity, resulting in end of quarter values being reflected as purchases, issuances and settlements for derivatives having a zero fair value at inception. Gains (losses) related to Level 3 derivative receivables and derivative payables are reported in other non-interest income, which is a component of non-interest income.

(3) An end of quarter convention is used to reflect activity in retained interests in securitizations, resulting in all transactions and assumption changes being reflected as if they occurred on the last day of the quarter. Gains (losses) related to Level 3 retained interests in securitizations are reported in servicing and securitizations income, which is a component of non-interest income.

(4) The transfer out of Level 3 for the year ended December 31, 2010 was primarily driven by greater consistency amongst multiple pricing sources. The transfer into Level 3 were primarily driven by less consistency amongst vendor pricing on individual securities for non-agency MBS.

(5) The amount presented for unrealized gains (loss) for assets still held as of the reporting date primarily represents impairments for available-for-sale securities and accretion on certain fixed maturity securities, and are reported in total other-than-temporary losses as a component of non-interest income.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We are required to measure and recognize certain other financial assets at fair value on a nonrecurring basis in the consolidated balance sheet. These financial assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate impairment). Fair value adjustments for loans held for sale, foreclosed assets, and other assets are recorded in other non-interest expense, and fair value adjustments for loans held for investment are recorded in provision for loan and lease losses in the consolidated statement of income.

For assets measured at fair value on a nonrecurring basis and still held on the consolidated balance sheet, the following table provides the fair value measures by level of valuation assumptions used and the gains or losses recognized for these assets as a result of fair value measurements.

	December 31, 2010				
	Fair Value Measurements Using			Assets at Fair Value	Total Gains/ (Losses)
(Dollars in millions)	Level 1	Level 2	Level 3		
Assets					
Loans held for sale	$ 0	$ 206	$ 0	$ 206	$ (9)
Loans held for investment	0	126	159	285	(151)
Foreclosed assets[1]	0	249	0	249	(42)
Other	0	18	0	18	(8)
Total	$ 0	$ 599	$ 159	$ 758	$ (210)

	December 31, 2009				
	Fair Value Measurements Using			Assets at Fair Value	Total Gains/ (Losses)
(Dollars in millions)	Level 1	Level 2	Level 3		
Assets					
Loans held for sale	$ 0	$ 266	$ 0	$ 266	$ 16
Loans held for investment	0	156	267	423	255
Foreclosed assets[1]	0	197	0	197	26
Other	0	31	0	31	(4)
Total	$ 0	$ 650	$ 267	$ 917	$ 293

(1) Represents the fair value and related losses of foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value.

	December 31,			
	2010		2009	
(Dollars in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount [1]	Estimated Fair Value[1]
Financial Assets				
Cash and cash equivalents	$ 5,249	$ 5,249	$ 8,685	$ 8,685
Restricted cash for securitization investors	1,602	1,602	501	501
Securities available for sale	41,537	41,537	38,830	38,830
Securities held to maturity	0	0	80	80
Loans held for sale	228	228	268	268
Net loans held for investment	120,319	124,117	86,492	86,158
Interest receivable	1,070	1,070	936	936
Accounts receivable from securitization	118	118	7,128	7,128
Derivatives	1,319	1,319	1,069	1,069
Mortgage servicing rights	141	141	240	240
Financial Liabilities				
Non-interest bearing deposits	$ 15,048	$ 15,048	$ 13,439	$ 13,439
Interest-bearing deposits	107,162	107,587	102,370	102,616
Senior and subordinated notes	8,650	9,236	9,045	9,156
Securitized debt obligations	26,915	26,943	3,954	3,890
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,517	1,517	1,140	1,140
Other borrowings	4,714	4,901	6,875	6,693
Interest payable	488	488	509	509
Derivatives	636	636	407	407

(1) Certain prior period amounts have been revised to conform to current presentation.

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of December 31, 2010 and 2009. We applied the fair value provisions, to the financial instruments not recognized on the consolidated balance sheet at fair value, which include loans held for investment, interest receivable, non-interest bearing and interest bearing deposits, other borrowings, senior and subordinated notes, and interest payable. The provisions requiring us to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into our selection of inputs of our established valuation techniques.

Financial Assets

Cash and Cash Equivalents

The carrying amounts of cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks approximate fair value.

Restricted Cash or Securitization Investors

The carrying amounts of restricted cash for securitization investors approximate their fair value due to their relatively short-term nature.

Securities Held To Maturity

The carrying amounts of securities held to maturity, which consists of negative amortization bonds, approximate fair value. We recorded these securities at fair value on the date of acquisition. Fair value is determined using a discounted cash flow method, a form of the income approach. Discount rates were determined considering market rates at which similar instruments would be sold to third parties.

Securities Available For Sale

Quoted prices in active markets are used to measure the fair value of U.S. Treasury securities. For other investment categories, we utilize multiple third party pricing services to obtain fair value measures for the large majority of our securities. A pricing service may be considered as the primary pricing provider for certain types of securities, and the designation of the primary pricing provider may vary depending on the type of securities. The determination of the primary pricing provider is based on our experience and validation benchmark of the pricing service's performance in terms of providing fair value measurement for the various types of securities.

Certain securities available for sale are classified as Level 2 and 3, the majority of which are collateralized mortgage obligations and mortgage-backed securities. Classification indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses. The techniques used by the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves, and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings, and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results, and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

As of December 31, 2010, we saw significant improvements in the market value of our portfolio holdings driven by stabilization of the financial markets and reduced risk premiums as compared to 2009. The decrease in the amount of Level 3 securities reflected continued run-off of the securities, the liquidation of our CMBS and MBS securities, and improvement in pricing consistency.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of loans held for sale is determined using current secondary market prices for portfolios with similar characteristics. The carrying amounts as of December 31, 2010 and 2009 approximate fair value.

Loans Held For Investment, Net

The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excluded any value related to customer account relationships. The increase in fair value above carrying amount at December 31, 2010 was primarily due to a tightening of liquidity spreads and improved credit performance noted in our credit card, auto and commercial loan portfolios.

Commercial loans are considered impaired when it is probable that all amounts due in accordance with the contractual terms will not be collected. From time to time, we record nonrecurring fair value adjustments to reflect the fair value of the loan's collateral. See table of assets and liabilities measured at fair value on a nonrecurring basis above.

Interest Receivable

The carrying amount of interest receivable approximates the fair value of this asset due to its relatively short-term nature.

Accounts Receivable from Securitizations

Accounts receivable from securitizations include the interest-only strip, retained notes accrued interest receivable, cash reserve accounts and cash spread accounts for those securitization structures achieving off-balance sheet treatment. Refer to "Note 7—Variable Interest Entities and Securitizations" for discussion regarding the adoption of the new accounting consolidation standards on January 1, 2010. We use a valuation model that calculates the present value of estimated future cash flows. The model incorporates our estimate of assumptions market participants use in determining fair value, including estimates of payment rates, defaults, and discount rates including adjustments for liquidity, and contractual interest and fees. Other retained interests related to securitizations are carried at cost, which approximates fair value. The valuation technique for these securities is discussed in more detail in "Note 7—Variable Interest Entities and Securitizations."

Derivative Assets

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value derived for those derivatives using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other assets on the balance sheet.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment spreads, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. We record MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. The valuation technique for these securities is discussed in more detail in "Note 8—Goodwill and Other Intangible Assets."

Financial liabilities

Interest Bearing Deposits

The fair value of other interest-bearing deposits was determined based on discounted expected cash flows using discount rates consistent with current market rates for similar products with similar remaining terms.

Non-Interest Bearing Deposits

The carrying amount of non-interest bearing deposits approximates fair value.

Senior and Subordinated Notes

We engage multiple third party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing service utilizes a pricing model that incorporates available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models.

Securitized Debt Obligations

We utilized multiple third party pricing services to obtain fair value measures for the large majority of our securitized debt obligations. The techniques used by the pricing services utilize observable market data to the extent available; and pricing models may be used which incorporate available trade, bid and other market information as described in the above section. We used internal pricing models, discounted cash flow models or similar techniques to estimate the fair value of certain securitization trusts where third party pricing was not available.

Other Borrowings

The carrying amount of federal funds purchased and repurchase agreements, FHLB advances, and other short-term borrowings approximates fair value. The fair value of junior subordinated borrowings was estimated using the same methodology as described for senior and subordinated notes. The fair value of other borrowings was determined based on trade information for bonds with similar duration and credit quality, adjusted to incorporate any relevant credit information of the issuer. The increase in fair value of other borrowings above carrying values at December 31, 2010 was primarily due to interest rate spreads across the industry and the discounts in secondary trading activity exhibited in the junior subordinated borrowings during the second quarter of 2010.

Interest Payable

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.

Derivative Liabilities

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives, derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates, are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other liabilities on the consolidated balance sheets.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Commitments to extend credit and letters of credit

These financial instruments are generally not sold or traded. The fair value of the financial guarantees outstanding and included in other liabilities as of December 31, 2010 and 2009 that have been issued since January 1, 2003 was $3 million. The estimated fair values of extensions of credit and letters of credit are not readily available. However, the fair value of commitments to extend credit and letters of credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the counterparties. Commitments to extend credit issued by us are generally short-term in nature and, if drawn

upon, are issued under current market terms and conditions for credits with comparable risks. At December 31, 2010 and 2009, there was no material unrealized appreciation or depreciation on these financial instruments.

NOTE 20—BUSINESS SEGMENTS

Segment Description

Our principal operations are currently organized into three primary business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment are included in the "Other" category.

- *Credit Card:* Consists of our domestic consumer and small business card lending, national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.

- *Consumer Banking:* Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national automobile lending and consumer home loan lending and servicing activities.

- *Commercial Banking:* Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers.

- *Other Category:* Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments. Accordingly, net gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains (losses) on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as acquisition and restructuring charges; provisions for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Basis of Presentation

We report the financial results of our business segments on a continuing operations basis. See "Note 3—Discontinued Operations" for a discussion of discontinued operations. The results of our individual businesses, which are prepared on an internal management accounting and reporting basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We refer to the business segment results derived from our internal management accounting and reporting process as our "managed" presentation, which differs in some cases from our reported results prepared based on GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with GAAP.

Prior to January 1, 2010, our managed-basis presentation assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Our managed results also reflected differences in accounting for the valuation of retained interests and the recognition of gains and losses on the sale of interest-only strips. Our managed results did not include the addition of an allowance for loan and lease losses for the loans underlying our off-balance sheet securitization trusts. The adoption on January 1, 2010 of the new consolidation accounting standards resulted in accounting for the loans in our securitization trusts in our reported financial statements in a manner similar to how we account for these loans on a managed basis. As a result, our total reported and managed basis presentations are generally comparable for periods beginning after January 1, 2010.

Business Segment Reporting Methodology

The results of our business segments are intended to reflect each segment as if it were a stand-alone business. We have developed allocation methods for use in our internal management accounting and reporting process to assign certain managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. These allocation methods include funds transfer pricing and various other internally-developed methodologies and