

GUARANTY FINANCIAL CORP /VA/  
Form SC 13G/A  
February 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G/A

Under the Securities Exchange Act of 1934

Ammendment 2003-1

GUARANTY FINANCIAL CORPORATION  
(Name of Issuer)

Common Stock, par value \$1.25 per share  
(Title of Class of Securities)

401086103  
(CUSIP Number)

December 31, 2003  
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

☐ Rule 13d-1(b)

☒ Rule 13d-1(c)

☐ Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

The Reporting Persons previously filed their ownership interest in the Issuer pursuant to a Schedule 13G, dated December 31, 2002

SCHEDULE 13G/A

CUSIP No. 401086103

## Edgar Filing: GUARANTY FINANCIAL CORP /VA/ - Form SC 13G/A

1 NAME OF REPORTING PERSON  
S.S. or I.R.S. IDENTIFICATION NO. OF ABOVE PERSON (OPTIONAL)  
  
Banc Fund IV L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*  
(a) / /  
(b) /x/

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION  
  
U.S.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5 SOLE VOTING POWER  
  
0

6 SHARED VOTING POWER  
  
0

7 SOLE DISPOSITIVE POWER  
  
0

8 SHARED DISPOSITIVE POWER  
  
0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
  
0

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*  
/X/

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9  
  
0%

12 TYPE OF REPORTING PERSON\*  
  
PN

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SCHEDULE 13G/A

CUSIP No. 401086103

1 NAME OF REPORTING PERSON  
S.S. or I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Banc Fund V L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*

(a) / /

(b) /x/

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5 SOLE VOTING POWER

85,909

6 SHARED VOTING POWER

0

7 SOLE DISPOSITIVE POWER

85,909

8 SHARED DISPOSITIVE POWER

0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

85,909

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

/X/

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

4.3%

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12 TYPE OF REPORTING PERSON\*

PN

SCHEDULE 13G/A

CUSIP No. 401086103

1 NAME OF REPORTING PERSON  
S.S. or I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Banc Fund VI L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\*

(a) / /

(b) /x/

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5 SOLE VOTING POWER

73,939

6 SHARED VOTING POWER

0

7 SOLE DISPOSITIVE POWER

73,939

8 SHARED DISPOSITIVE POWER

0

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

73,939

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES\*

/X/

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11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

3.7%

12 TYPE OF REPORTING PERSON\*

PN

Item 1 (a) Name of Issuer: GUARANTY FINANCIAL CORPORATION

Item 1 (b) Address of Issuer's Principal Executive Offices:

1658 State Farm Blvd., Charlottesville, VA 22911

Item 2 (a) Name of Person Filing:

This Schedule 13G/A is being filed jointly by Banc Fund IV L.P. ("BF IV"), an Illinois Limited Partnership, Banc Fund V L.P. ("BF V"), an Illinois Limited Partnership, and Banc Fund VI L.P. ("BF VI"), an Illinois Limited Partnership, (collectively, the "Reporting Persons").

The general partner of BF IV is MidBanc IV L.P. ("MidBanc IV"), whose principal business is to be a general partner of BF IV. The general partner of BF V is MidBanc V L.P. ("MidBanc V"), whose principal business is to be a general partner of BF V. The general partner of BF VI is MidBanc VI L.P. ("MidBanc VI"), whose principal business is to be a general partner of BF VI. MidBanc IV, V, and VI are Illinois limited partnerships. The general partner of MidBanc IV is ChiCorp Management IV, Inc. ("Management IV"), whose principal business is to be a general partner of MidBanc IV. The general partner of MidBanc V and MidBanc VI is The Banc Funds Company, L.L.C., ("TBFC"), whose principal business is to be a general partner of MidBanc V and MidBanc VI. TBFC is an Illinois corporation. The sole stockholder of Management IV is TBFC, an Illinois limited liability company which is controlled by Charles J. Moore. Mr. Moore has been the manager of the investment decisions for each of BF IV, BF V, and BF VI since their respective inception. As manager, Mr. Moore has voting and dispositive power over the securities of the issuer held by each of those entities. As the controlling member of TBFC, Mr. Moore will control Management IV, and TBFC, and therefore each of the Partnership entities directly and indirectly controlled by each of Management IV and TBFC.

Item 2 (b) Address of Principal Business Office:

208 S. LaSalle Street, Chicago, IL 60604

Item 2 (c) Citizenship: United States

Item 2 (d) Title of Class of Securities: Common Stock

Item 2 (e) CUSIP Number: 401086103

Item 3 If this statement is being filed pursuant to Rule 13d-1(b) or

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13d-2(b), check whether the person filing is an:

- (a) ☐ Broker or Dealer registered under Section 15 of the Act
- (b) ☐ Bank as defined in section 3(a)(6) of the Act (c) ☐ Insurance Company as defined in section 3(a)(19) of the Act (d) ☐ Investment Company registered under section 8 of the Investment Company Act of 1940
- (e) ☐ An Investment Adviser in accordance with Rule 13d-1(b)(1)(ii)(E)
- (f) ☐ An Employee Benefit Plan or Endowment Fund in accordance with Rule 13d-1(b)(1)(ii)(F)
- (g) ☐ A Parent Holding Company or Control Person in accordance with Rule 13d-1(b)(ii)(G)
- (h) ☐ A Savings Association as defined in Section 3(b) of the Federal Deposit Insurance Act
- (i) ☐ A Church Plan that is excluded From the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940
- (j) ☐ Group, in accordance with 13d-1(b)(1)(ii)(J)

### Item 4 Ownership:

The following information is provided as of February 10, 2004 for the calendar year ending December 31, 2003:

- (a) Amount Beneficially Owned: 159,848
- (b) Percent of Class: 8.0%
- (c) Number of shares as to which such person has:
  - (i) sole power to vote or to direct the vote: 159,848
  - (ii) shared power to vote or to direct the vote: 0
  - (iii) sole power to dispose or to direct the disposition of: 159,848
  - (iv) shared power to dispose or to direct the disposition of: 0

### Item 5 Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ☐.

### Item 6 Ownership of More than Five Percent on Behalf of Another Person:

Not Applicable.

### Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company:

Not Applicable.

### Item 8 Identification and Classification of Members of the Group:

Not Applicable.

### Item 9 Notice of Dissolution of Group:

Not Applicable.

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### Item 10 Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

### Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 11, 2004

BANC FUND IV L.P.

By MIDBANC IV L.P.,  
general partner  
By CHICORP MANAGEMENT IV, INC.,  
general partner  
By The Banc Funds Company, L.L.C.,  
Owner  
By /s/ Charles J. Moore

Charles J. Moore, President

BANC FUND V L.P.

By MIDBANC V L.P.,  
general partner  
By The Banc Funds Company, L.L.C.,  
general partner  
By The Banc Funds Company, L.L.C.,  
Owner  
By /s/ Charles J. Moore

Charles J. Moore, President

BANC FUND VI L.P.

By MIDBANC VI L.P.,  
general partner  
By The Banc Funds Company, L.L.C.,  
general partner  
By The Banc Funds Company, L.L.C.,  
Owner  
By /s/ Charles J. Moore

Charles J. Moore, President

x;margin-bottom:0px" ALIGN="center">DOCUMENTS INCORPORATED BY REFERENCE

Part III information is incorporated herein by reference, pursuant to Instruction G of Form 10-K, to SunTrust's Proxy Statement for its 2007 Annual Shareholder's Meeting, which will be filed with the Commission no later than April 30, 2007 (the Proxy Statement). Certain Part I and Part II information required by Form 10-K is incorporated by reference to the SunTrust Annual Report to Shareholders, but the Annual Report to Shareholders shall not be deemed filed with the Commission.

## **PART I**

### **Item 1. BUSINESS**

#### **General**

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

Additional information relating to our businesses and our subsidiaries is included in the information set forth in pages 17 through 70 of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 22 of the Notes to the Consolidated Financial Statements in Item 8 of this report.

#### **Primary Market Areas**

Through its flagship subsidiary SunTrust Bank, the Company provides deposit, credit, and trust and investment services. Additional subsidiaries provide mortgage banking, credit-related insurance, asset management, securities brokerage and capital market services. SunTrust enjoys strong market positions in some of the highest-growth markets in the United States and operates primarily within Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. Within the geographic footprint, SunTrust strategically operates under five business segments. These business segments are: Retail, Commercial, Corporate and Investment Banking ( CIB ), Mortgage, and Wealth and Investment Management. In addition, SunTrust provides clients with a selection of technology based banking channels, including the Internet, automated teller machines, PC and twenty-four hour telebanking. SunTrust's client base encompasses a broad range of individuals and families, high net-worth clients, businesses, and institutions.

#### **Acquisition and Disposition Activity**

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

On October 1, 2004, the Company completed its merger with National Commerce Financial Corporation and on March 31, 2005, SunTrust sold the Receivables Capital Management factoring division. On September 29, 2006, SunTrust sold its Bond Trustee business. Additional information on these and other acquisitions and dispositions is included in Note 2 to the Consolidated Financial Statements in Item 8 which are incorporated herein by reference.

#### **Government Supervision and Regulation**

As a bank holding company and a financial holding company, the Company is subject to the regulation and supervision of the Board of Governors of the Federal Reserve System (the Federal Reserve ). SunTrust Bank is a Georgia state bank which has branches in Georgia, Florida, Tennessee, Alabama,





Virginia, West Virginia, Maryland, North Carolina, South Carolina, the District of Columbia, Mississippi and Arkansas. SunTrust Bank is a member of the Federal Reserve System, and is regulated by the Federal Reserve, the Federal Deposit Insurance Corporation (the FDIC) and the Georgia Department of Banking and Finance. Until February 2, 2007 SunTrust Bank also operated certain branches under the name El Banco de Nuestra Comunidad, a division of SunTrust Bank in Georgia.

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

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. In addition, a bank may establish branches across state lines by merging with a bank in another state, subject to certain restrictions. A bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or is in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the cross-guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized as such terms are defined under regulations issued by each of the federal banking agencies.

The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The Federal Reserve risk-based guidelines define a tier-based capital framework. Tier 1 capital includes common shareholders' equity, trust preferred securities, minority interests and qualifying preferred stock, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, the allowance for credit losses up to a certain amount and a portion of the unrealized gain on equity securities. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents the Company's qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by

risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Banking organizations are required to maintain a ratio of at least five percent to be classified as well capitalized.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systp;7.39%

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(c) Number of shares as to which such person has:

(i) sole power to vote or direct to vote: 142,351

(ii) shared power to vote or direct to vote: 3,200

(iii) sole power to dispose of or to direct the disposition of: 4,663,266

(iv) shared power to dispose or to direct the disposition of: 141,851

Comments:

Item 5 - Ownership of Five Percent or Less of a Class:

Not Applicable

Item 6 - Ownership of More Than Five Percent on Behalf of Another Person:

Not applicable

Item 7 - Identification and Classification of the Subsidiary Which Acquired The Security Being Reported on by the Parent Holding Company:

See Attached Appendix A

Item 8 - Identification and Classification of Members of Group:

Not applicable

Item 9 - Notice of Dissolution of Group:

Not applicable

Item 10 - Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: 02/10/16

By /s/ F. William McNabb III\*

F. William McNabb III

President and Chief Executive Officer

\*By: /s/ Glenn Booraem

Glenn Booraem, pursuant to a Power of Attorney filed September 9, 2013, see File Number 005-56905, Incorporated by Reference

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Appendix A

Vanguard Fiduciary Trust Company ("VFTC"), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 138,651 shares or .21% of the Common Stock outstanding of the Company as a result of its serving as investment manager of collective trust accounts.

Vanguard Investments Australia, Ltd. ("VIA"), a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of 6,900 shares or .01% of the Common Stock outstanding of the Company as a result of its serving as investment manager of Australian investment offerings.

By /s/ F. William McNabb III\*

F. William McNabb III

President and Chief Executive Officer

\*By: /s/ Glenn Booraem

Glenn Booraem, pursuant to a Power of Attorney filed September 9, 2013, see File Number 005-56905, Incorporated by Reference

" face="Times New Roman" style="font-size:10.0pt;">(h)

o

A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act;

(i)

o

A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;

(j)

o

Group, in accordance with § 240.13d-1(b)(1)(ii)(J).

Not Applicable.



**Item 4. Ownership.**

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a)	Amount beneficially owned:	Cornelius B. Prior, Jr.:	4,379,330*
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*	Includes 4,336,603 shares held directly by Mr. Prior; 34,000 shares held by the Katherine D. Prior Revocable Trust, for which Mr. Prior serves as sole trustee; 8,227 shares held by Tropical Aircraft Co., of which Mr. Prior is the sole shareholder and President; and 500 shares held by Gertrude J. Prior, Mr. Prior's wife. This amount does not include 392,772 shares held by the Prior Family Foundation, a charitable trust for which Mrs. Prior serves as sole trustee, for which Mr. Prior disclaims beneficial ownership.
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(b)	Percent of class: Cornelius B. Prior, Jr.:	27.3%
(c)	Number of shares as to which such person has:	

(i)	Sole power to vote or direct the vote Cornelius B. Prior, Jr.:	4,378,830
(ii)	Shared power to vote or to direct the vote Cornelius B. Prior, Jr.:	500
(iii)	Sole power to dispose or to direct the disposition of Cornelius B. Prior, Jr.:	4,378,830
(iv)	Shared power to dispose or to direct the disposition of Cornelius B. Prior, Jr.:	500

**Item 5. Ownership of Five Percent or Less of a Class.**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ☐.

**Item 6. Ownership of More than Five Percent on Behalf of Another Person.**

Not Applicable.

**Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.**

Not Applicable.

**Item 8. Identification and Classification of Members of the Group.**

Not Applicable.

**Item 9. Notice of Dissolution of Group.**

None.

**Item 10. Certifications.**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

**After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.**

Date: February 9, 2018

By: /s/ Cornelius B. Prior, Jr.  
Cornelius B. Prior, Jr.

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**Significant legal actions could subject us to substantial uninsured liabilities.**

We are from time to time subject to claims related to our operations. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could adversely affect our results of operations and financial condition.

**Company Risks**

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

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

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

Furthermore, we must generally receive federal regulatory approval before we can acquire a bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, future prospects, including current and projected capital levels, the competence, experience, and integrity of management, compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution's record of compliance under the Community Reinvestment Act, and the effectiveness of the acquiring institution in combating money laundering activities. In addition, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we might be required to sell portions of the acquired institution as a condition to receiving regulatory approval or we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

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

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

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

Our success depends upon the ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees. Our ability to execute the business strategy and provide high quality service may suffer if we are unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially.

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

Accounting policies and methods are fundamental to how we record and report the financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with Generally Accepted Accounting Principles in the United States ( US GAAP ).

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty of estimates about these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. See the Critical Accounting Policies section beginning on page 63 and Note 1, Accounting Policies, to the Consolidated Financial Statements in this report for more information.

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

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

**Our stock price can be volatile.**

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

- variations in our quarterly operating results;
- changes in market valuations of companies in the financial services industry;
- fluctuations in stock market prices and volumes;
- issuances of shares of common stock or other securities in the future;
- the addition or departure of key personnel;
- seasonal fluctuations;
- changes in financial estimates or recommendations by securities analysts regarding SunTrust or shares of our common stock; and
- announcements by us or our competitors of new services or technology, acquisitions, or joint ventures.

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

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

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

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

**Item 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved written comments that were received from the Securities and Exchange Commission's staff 180 days or more before the end of the Company's fiscal year relating to the Company's periodic or current reports filed under the Securities Exchange Act of 1934.

**Item 2. PROPERTIES**

The Company's headquarters is located in Atlanta, Georgia. As of December 31, 2006, SunTrust Bank owned 995 of its 1,701 full-service banking offices and leased the remaining banking offices. (See Note 8, Premises and Equipment to the Consolidated Financial Statements.)

**Item 3. LEGAL PROCEEDINGS**

On August 25, 2006, the Company received notice from the Securities and Exchange Commission that the SEC had terminated its formal inquiry into matters concerning the restatement of SunTrust's consolidated financial statements for the first and second quarters of 2004 and related matters, and that the Staff of the SEC recommended to the Commission that no enforcement action be taken against the Company.

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the course of their normal business activities, some of which involve claims for substantial amounts. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Company's consolidated results of operations or financial position.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of shareholders during the quarter ended December 31, 2006.

## PART II

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

The principal market on which the Common Stock of the Company is traded is the New York Stock Exchange ( NYSE ). See Item 6 and Table 16 in the MD&A for information on the high and the low closing sales prices of the Common Stock on the NYSE, which is incorporated herein by reference. During the twelve months ended December 31, 2006 and 2005, we paid a quarterly dividend of \$.61 and \$.55 per share of Common Stock. Our Common Stock is held by approximately 38,328 Registered Shareholders as of December 31, 2006. See Table 22 in the MD&A on page 69 for information on the monthly share repurchases activity, including total common shares repurchased and announced programs, weighted average per share price and the remaining buy-back authority under the announced programs, which is incorporated herein by reference.

Set forth below is a line graph comparing the yearly percentage change in the cumulative total Shareholder return on SunTrust Common Stock against the cumulative total return of the S&P Composite-500 Stock Index, the S&P Diversified Banks Index and the S&P Commercial Bank Industry Index for the five years commencing December 31, 2001 and ended December 31, 2006.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among SunTrust Banks, Inc., The S & P 500 Index,

The S & P Diversified Banks Index And The S & P Commercial Bank Industry

\* \$ 100 invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

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	12/01	12/02	12/03	12/04	12/05	12/06
SunTrust Banks, Inc.	100.00	93.26	120.64	128.31	130.24	156.04
S & P 500	100.00	77.90	100.24	111.15	116.61	135.03
S & P 500 Diversified Banks Index	100.00	98.98	130.74	153.64	157.87	183.59
S & P 500 Commercial Bank Industry Index	100.00	102.95	132.58	144.97	146.75	170.57

The Company added the cumulative total return on the S&P 500 Commercial Bank Industry Index this year in advance of retiring the comparison to the S&P 500 Diversified Banks Index in 2008 and replacing it with this index. The reason for this transition is that the Company believes the S&P 500 Commercial Bank Industry Index provides a more comprehensive representation of peer banks than does the S&P 500 Diversified Banks Index, which currently is comprised of four banks. The S&P 500 Commercial Bank Industry Index is currently comprised of 19 banks and includes the four banks that are currently included in the S&P 500 Diversified Banks Index.



**Item 6. SELECTED FINANCIAL DATA****Twelve Months Ended December 31**

(Dollars in millions, except per share and other data)

	2006	2005	2004	2003	2002	2001
<b>Summary of Operations</b>						
Interest, fees, and dividend income	\$9,792.0	\$7,731.3	\$5,218.4	\$4,768.8	\$5,135.2	\$6,279.6
Interest expense	5,131.6	3,152.3	1,533.2	1,448.5	1,891.5	3,027.0
Net interest income	4,660.4	4,579.0	3,685.2	3,320.3	3,243.7	3,252.6
Provision for loan losses	262.5	176.9	135.6	313.6	469.8	275.2
Net interest income after provision for loan losses	4,397.9	4,402.1	3,549.6	3,006.7	2,773.9	2,977.4
Noninterest income	3,468.4	3,155.0	2,604.4	2,303.0	2,268.8	2,051.9
Noninterest expense	4,879.9	4,690.7	3,897.0	3,400.6	3,219.4	2,999.9
Income before provision for income taxes	2,986.4	2,866.4	2,257.0	1,909.1	1,823.3	2,029.4
Provision for income taxes	869.0	879.2	684.1	576.8	491.5	653.9
Net income	2,117.4	1,987.2	1,572.9	1,332.3	1,331.8	1,375.5
Preferred stock dividends	7.7	-	-	-	-	-
Net income available to common shareholders	\$2,109.7	\$1,987.2	\$1,572.9	\$1,332.3	\$1,331.8	\$1,375.5
Net interest income-FTE	\$4,748.4	\$4,654.5	\$3,743.6	\$3,365.3	\$3,283.2	\$3,293.4
Total revenue-FTE	8,216.8	7,809.5	6,348.0	5,668.3	5,552.0	5,345.3
<b>Net income per average common share</b>						
Diluted	\$5.82	\$5.47	\$5.19	\$4.73	\$4.66	\$4.72
Diluted, excluding merger expense	5.82	5.64	5.25	4.73	4.80	4.72
Basic	5.87	5.53	5.25	4.79	4.71	4.78
Dividends paid per average common share	2.44	2.20	2.00	1.80	1.72	1.60
<b>Selected Average Balances</b>						
Total assets	\$180,315.1	\$168,088.8	\$133,754.3	\$122,325.4	\$108,516.1	\$102,884.2
Earning assets	158,428.7	146,639.8	117,968.8	108,094.9	95,569.7	92,034.1
Loans	119,645.2	108,742.0	86,214.5	76,137.9	71,270.4	70,023.0
Consumer and commercial deposits	97,175.3	93,355.0	77,091.5	69,443.7	65,429.6	56,775.6
Brokered and foreign deposits	26,490.2	17,051.5	10,041.4	10,595.3	5,727.6	7,793.1
Total shareholders' equity	17,546.7	16,526.3	11,469.5	9,083.0	8,725.7	8,073.8
<b>As of December 31</b>						
Total assets	\$182,161.6	\$179,712.8	\$158,869.8	\$125,250.5	\$117,322.5	\$104,740.6
Earning assets	159,063.8	156,640.9	137,813.4	111,266.5	103,696.6	93,327.5
Loans	121,454.3	114,554.9	101,426.2	80,732.3	73,167.9	68,959.2
Allowance for loan and lease losses	1,044.5	1,028.1	1,050.0	941.9	930.1	867.1
Consumer and commercial deposits	99,775.9	97,572.4	92,109.7	72,924.6	70,226.8	62,281.2
Brokered and foreign deposits	24,245.7	24,480.8	11,251.6	8,264.9	9,479.8	5,255.2
Long-term debt	18,992.9	20,779.2	22,127.2	15,313.9	11,879.8	12,660.6
Total shareholders' equity	17,813.6	16,887.4	15,986.9	9,731.2	8,769.5	8,359.6
<b>Financial Ratios and Other Data</b>						
Return on average total assets	1.17 %	1.18 %	1.18 %	1.09 %	1.23 %	1.34 %
Return on average total assets less net unrealized securities gains	1.17	1.17	1.19	1.01	1.10	1.24
Return on average common shareholders' equity	12.13	12.02	13.71	14.67	15.26	17.04
Return on average realized common shareholders' equity	12.72	12.70	15.65	15.98	16.67	19.68
Net interest margin	3.00	3.17	3.17	3.11	3.44	3.58
Efficiency ratio	59.39	60.06	61.39	59.99	57.99	56.12
Efficiency ratio, excluding merger expense	59.39	58.80	60.94	59.99	57.70	56.12
Tangible efficiency ratio	58.13	58.54	60.17	58.86	56.93	55.26
Effective tax rate	29.10	30.67	30.31	30.21	26.96	32.22
Allowance to year-end loans	0.86	0.90	1.04	1.17	1.27	1.26

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Nonperforming assets to total loans plus OREO and other repossessed assets	0.49	0.29	0.40	0.47	0.74	0.87
Common dividend payout ratio	41.7	40.0	38.4	37.9	36.8	33.7
Full-service banking offices	1,701	1,657	1,676	1,183	1,184	1,128
ATMs	2,569	2,782	2,804	2,225	2,286	1,944
Full-time equivalent employees	33,599	33,406	33,156	27,578	27,622	28,391
Tier 1 capital ratio	7.72 %	7.01 %	7.16 %	7.85 %	7.47 %	8.02 %
Total capital ratio	11.11	10.57	10.36	11.75	11.62	12.18
Tier 1 leverage ratio	7.23	6.65	6.64	7.37	7.30	7.94
Total average shareholders' equity to total average assets	9.73	9.83	8.58	7.43	8.04	7.85
Tangible equity to tangible assets	6.03	5.56	5.68	6.82	6.52	7.58
Book value per common share	48.78	46.65	44.30	34.52	31.04	28.97
Market price:						
High	\$85.64	\$75.77	\$76.65	\$71.73	\$70.20	\$72.35
Low	69.68	65.32	61.27	51.44	51.48	57.29
Close	84.45	72.76	73.88	71.50	56.92	62.70
Market capitalization	29,972	26,338	26,659	20,157	16,080	18,095
Average common shares outstanding (000s)						
Diluted	362,802	363,454	303,309	281,434	286,052	291,584
Basic	359,413	359,066	299,375	278,295	282,495	287,702

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

This narrative will assist readers in their analysis of the accompanying consolidated financial statements and supplemental financial information of the Company. It should be read in conjunction with the Consolidated Financial Statements and Notes on pages 73 through 130.

Effective October 1, 2004, National Commerce Financial Corporation ( NCF ) merged with SunTrust. The results of operations for NCF were included with SunTrust's results beginning October 1, 2004. Prior periods do not reflect the impact of the merger.

In Management's Discussion and Analysis, net interest income, net interest margin and the efficiency ratio are presented on a fully taxable-equivalent ( FTE ) basis and the ratios are presented on an annualized basis. The FTE basis adjusts for the tax-favored status of income from certain loans and investments. The Company believes this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. The Company also presents diluted earnings per common share excluding merger expense and an efficiency ratio excluding merger expense that exclude merger charges related to the NCF acquisition. The Company believes the exclusion of the merger charges, which represent incremental costs to integrate NCF's operations, is more reflective of normalized operations. Additionally, the Company presents a return on average realized common shareholders' equity, as well as a return on average common shareholders' equity ( ROE ). The Company also presents a return on average assets less net unrealized securities gains/losses and a return on average total assets ( ROA ). The return on average realized common shareholders' equity and return on average assets less net unrealized securities gains/losses exclude realized securities gains and losses, The Coca-Cola Company dividend, and net unrealized securities gains. Due to its ownership of approximately 48 million shares of common stock of The Coca-Cola Company, resulting in an unrealized net gain of \$2.3 billion as of December 31, 2006, the Company believes ROA and ROE excluding these impacts from the Company's securities portfolio is the more comparative performance measure when being evaluated against other companies. SunTrust presents a tangible efficiency ratio and a tangible equity to tangible assets ratio which exclude the cost of and the other effects of intangible assets resulting from merger and acquisition ( M&A ) activity. The Company believes these measures are useful to investors because, by removing the effect of intangible asset costs and merger and acquisition activity (the level of which may vary from company to company), it allows investors to more easily compare the Company's efficiency and capital adequacy to other companies in the industry. The measures are utilized by management to assess the efficiency of the Company and its lines of business as well as the capital adequacy of the Company. The Company provides reconciliations on pages 67 and 68 for all non-US GAAP measures. Certain reclassifications may be made to prior period financial statements and related information to conform them to the 2006 presentation.

SunTrust reported net income available to common shareholders of \$2,109.7 million, or \$5.82 per diluted common share for the year ended December 31, 2006. For the fourth quarter of 2006, SunTrust reported net income available to common shareholders of \$498.6 million or \$1.39 per diluted common share. These results have been revised from the earnings results the Company reported in its January 19, 2007 earnings release in which the Company reported net income available to common shareholders of \$2,134.8 million, or \$5.88 per diluted common share for the year ended December 31, 2006 and net income available to common shareholders of \$523.6 million, or \$1.46 per diluted common share for the fourth quarter ended December 31, 2006. The reduction in earnings relates to a \$40 million increase in the provision for loan losses associated with the previously disclosed large commercial credit.

Subsequent to year end, the Company continued to work with the borrower associated with this large commercial credit to identify all possible sources of repayment. As of December 31, 2006 and at the



time of the 2006 earnings release, the Company had recorded a specific reserve which reflected management's best estimate of the expected loss based on information available at that time. In February 2007, certain events occurred which resulted in a reduction of management's estimate of the net realizable amount of the loan. On February 23, 2007, the borrower signed a definitive agreement to sell the majority of its assets, primarily customer contracts, to an unrelated third party at a value that was less than previously estimated due in large part to a reduction in the borrower's revenues after December 31, 2006. As a result of the sale of the majority of the borrower's assets, the large commercial credit was partially repaid and the remainder of the Company's exposure to this borrower was charged-off. This resulted in an additional \$40 million in provision for loan losses and a \$68.8 million charge-off.

SunTrust provided the financing to the purchaser. The Company believes the purchaser is financially stable, and the new financing reflects market terms and conditions. The terms of the definitive sale agreement include a component of contingent consideration of approximately \$31 million, based on the future performance of the purchased customer contracts. The performance period ends during the third quarter of 2007. The contingent portion of the purchase was structured under a separate note. Since the ultimate amount of repayment on this note is based on the future performance of the purchased customer contracts, the note is classified as non-accrual and the Company recorded a specific reserve based on the estimated amount of consideration to be received. Nonperforming loans declined \$130.5 million as a result of the definitive agreement and new financing.

Management evaluated these events and determined that in accordance with generally accepted accounting principles that it was necessary to reflect these revisions to the estimated net realizable amount of the loan in its 2006 financial statements since these subsequent events occurred prior to the filing of the Company's 2006 Annual Report on Form 10-K. The revision to management's estimate subsequent to year end does not constitute a control deficiency. Rather, it is a reflection of the extremely fluid nature of the workout activities associated with this large commercial credit and specific events which took place subsequent to year end. All of the financial information included in the Company's 2006 Annual Report on Form 10-K has been updated to reflect these revisions.

## INTRODUCTION

SunTrust is headquartered in Atlanta, Georgia, and operates primarily within Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. Within the geographic footprint, SunTrust strategically operates under five business segments. These business segments are: Retail, Commercial, Corporate and Investment Banking (CIB), Wealth and Investment Management, and Mortgage.

Despite a challenging operating environment in 2006, which included fierce deposit competition and a prolonged flat to inverted yield curve, SunTrust was able to grow diluted earnings per common share by 6.4% over 2005. Loans, deposits and our overall customer base continued to grow in 2006, which reflects our intense focus on sales and client service. As the year progressed and market conditions became increasingly difficult, we were able to overcome the negative impact the yield curve had on net interest income with strong fee income growth and by ratcheting up expense control. The Company also instituted an efficiency and productivity program in the second half of 2006 which we expect to yield significant benefits over the next several years. The efficiency and productivity initiatives, coupled with our sales and service focus and strong credit culture, provide momentum going into 2007 and beyond.

The following is a summary of the Company's 2006 financial performance:

Total revenue-FTE increased \$407.3 million, or 5.2%, compared to 2005. Noninterest income sources contributed \$313.3 million, or 76.9% of the increase, led by strong mortgage production and servicing income while net interest income-FTE contributed \$93.9 million, or 23.1% of the increase.



Net interest income-FTE increased \$93.9 million, or 2.0%; however the net interest margin declined 17 basis points to 3.00%. The margin decline was the result of the flat to inverted yield curve experienced throughout 2006 which compressed interest rate spreads on earning assets. The average earning asset yield increased 92 basis points compared to 2005 while the average interest bearing liability cost increased 128 basis points, resulting in a 36 basis point decline in interest rate spread. Additionally, there was a shift in the mix of deposits to higher cost products, with certificates of deposits increasing, while other deposit products, specifically DDA, money market, and savings, declined.

Noninterest income improved \$313.3 million, or 9.9%, compared to 2005. The increase was driven by strong mortgage production and servicing income and gain on the sale of the Bond Trustee business.

Noninterest expense increased \$189.1 million, or 4.0%, compared to 2005. The increase was driven by higher personnel costs due to increased headcount, normal merit raises, and higher benefits cost.

Net charge-offs as a percentage of average loans was 0.21% for 2006 and included the charge-off of a large commercial loan that was determined to be nonperforming in the third quarter of 2006. This credit was the primary driver of an \$85.6 million, or 48.4%, increase in provision for loan losses compared to 2005. Nonperforming assets increased \$259.6 million compared to December 31, 2005 due primarily to an increase in residential real estate nonperforming loans, which was driven mainly by the maturation of this portfolio, and more specifically in well-collateralized or insured conforming and Alt-A first mortgage loans.

**CONSOLIDATED RESULTS**TABLE 1 - Analysis of changes in Net Interest Income<sup>1</sup>

(Dollars in millions on a taxable-equivalent basis)	2006 Compared to 2005			2005 Compared to 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest Income</b>						
Loans:						
Real estate 1-4 family	\$382.6	\$180.5	\$563.1	\$375.0	\$69.4	\$444.4
Real estate construction	188.4	136.5	324.9	226.1	97.4	323.5
Real estate home equity lines	77.3	214.6	291.9	202.9	167.1	370.0
Real estate commercial	57.6	117.5	175.1	129.2	116.2	245.4
Commercial - FTE <sup>2</sup>	51.8	346.8	398.6	167.0	387.2	554.2
Business credit card	5.5	(1.2)	4.3	4.4	(0.2)	4.2
Consumer - direct	(80.0)	57.3	(22.7)	73.6	41.2	114.8
Consumer - indirect	(25.1)	26.1	1.0	1.8	(26.7)	(24.9)
Nonaccrual and restructured	4.4	(1.0)	3.4	1.5	(7.3)	(5.8)
Securities available for sale:						
Taxable	(98.3)	108.1	9.8	87.2	132.7	219.9
Tax-exempt <sup>2</sup>	5.0	(0.9)	4.1	15.0	(1.0)	14.0
Funds sold and securities purchased under agreements to resell	(8.6)	22.4	13.8	0.4	24.2	24.6
Loans held for sale	166.3	76.0	242.3	170.7	33.7	204.4
Interest-bearing deposits	2.5	-	2.5	0.1	0.6	0.7
Interest earning trading assets	23.7	37.4	61.1	27.8	12.8	40.6
<b>Total interest income</b>	<b>753.1</b>	<b>1,320.1</b>	<b>2,073.2</b>	<b>1,482.7</b>	<b>1,047.3</b>	<b>2,530.0</b>
<b>Interest Expense</b>						
NOW accounts	-	139.0	139.0	21.5	76.3	97.8
Money market accounts	(19.2)	214.8	195.6	26.1	213.9	240.0
Savings	(9.6)	31.6	22.0	(7.3)	8.9	1.6
Consumer time	101.0	158.8	259.8	108.5	64.3	172.8
Other time	147.3	106.8	254.1	107.1	38.8	145.9
Brokered deposits	321.9	204.2	526.1	177.9	88.7	266.6
Foreign deposits	84.6	150.6	235.2	17.4	124.6	142.0
Funds purchased	20.3	74.1	94.4	1.0	79.6	80.6
Securities sold under agreements to repurchase	19.9	116.6	136.5	4.9	118.1	123.0
Other short-term borrowings	(52.1)	47.0	(5.1)	22.9	41.9	64.8
Long-term debt	(143.9)	265.6	121.7	140.0	144.0	284.0
<b>Total interest expense</b>	<b>470.2</b>	<b>1,509.1</b>	<b>1,979.3</b>	<b>620.0</b>	<b>999.1</b>	<b>1,619.1</b>
<b>Net change in net interest income</b>	<b>\$282.9</b>	<b>(\$189.0)</b>	<b>\$93.9</b>	<b>\$862.7</b>	<b>\$48.2</b>	<b>\$910.9</b>

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

<sup>2</sup> Interest income includes the effects of taxable-equivalent adjustments (reduced by the nondeductible portion of interest expense) using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-equivalent basis.

**Net Interest Income/Margin**

Net interest income for 2006 was \$4,748.4 million, an increase of \$93.9 million, or 2.0%, from 2005. Net interest income benefited from strong earning asset growth, in particular, loans and loans held for sale.



The net interest margin decreased 17 basis points to 3.00% in 2006 due to spread compression from the continued flat to inverted yield curve. An overall decline in low cost deposits, as well as a shift in the deposit mix to higher cost certificates of deposit also contributed to the decrease. Continuation or acceleration of this trend in customer preferences for higher yielding deposits and a prolonged flat to inverted yield curve, or other external factors, could have a further negative impact on net interest margin in future periods. The Company has incorporated initiatives to mitigate further margin compression with an emphasis on growing lower cost deposits.

While both short-term and long-term interest rates have risen for the last year, the yield curve has flattened considerably. The Federal Reserve Bank Fed Funds rate averaged 4.97% for 2006, an increase

of 175 basis points over the 2005 average, and one-month LIBOR increased 167 basis points to average 5.13% in 2006. In contrast, the five-year swap rate averaged 5.23%, an increase of 75 basis points over the 2005 average, and the ten-year swap rate increased 60 basis points over the same time period to an average rate of 5.33%. As a result, incremental asset growth, in particular mortgage loans and mortgage loans held for sale, were funded at tighter spreads due to higher short-term borrowing costs. The 2006 earning asset yield increased 92 basis points from 2005, while total interest-bearing liability costs increased 128 basis points from the prior year. Loan yield improved 95 basis points and securities available for sale yield increased 43 basis points from the prior year.

Average earning assets were up \$11.8 billion, or 8.0%, and average interest-bearing liabilities increased \$11.2 billion, or 9.3%, for 2006 compared to 2005. Average loans increased \$10.9 billion, or 10.0%, primarily due to mortgage loans, average securities available for sale decreased \$2.0 billion, or 7.7%, and average loans held for sale increased \$2.6 billion, or 31.2%, compared to 2005. The decline in securities available for sale was a result of the 2006 repositioning initiative to improve the portfolio yield and delever the balance sheet. Further details of the portfolio repositioning are provided in the Securities Available for Sale section beginning on page 32.

The Company continued to take steps to obtain alternative lower cost funding sources, such as developing initiatives to grow customer deposits. Campaigns to attract client deposits were implemented in 2005 and continued in the fourth quarter of 2006 as evidenced by the \$3.8 billion increase in average consumer and commercial deposits compared to 2005. The net growth in consumer and commercial deposits was entirely in certificates of deposit as consumers have focused on higher paying deposits in the current rate environment. Low cost deposits (noninterest-bearing deposits, certain NOW accounts, and savings) declined due to lower cost deposits migrating to higher cost certificates of deposits as well as customers seeking alternative investments offered by the Company such as off balance sheet money market mutual funds.

Interest income that the Company was unable to recognize on nonperforming loans had a negative impact of one basis point on the net interest margin in both 2006 and 2005.

TABLE 2 - Consolidated Daily Average Balances, Income/Expense and Average Yields Earned and Rates Paid

(Dollars in millions; yields on taxable-equivalent basis)	2006			2005			2004		
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates
<b>Assets</b>									
Loans: <sup>1</sup>									
Real estate 1-4 family	\$33,523.5	\$2,022.6	6.03 %	\$26,972.2	\$1,459.4	5.41 %	\$19,961.9	\$1,015.0	5.08 %
Real estate construction	12,333.9	923.8	7.49	9,621.6	598.9	6.22	5,728.3	275.4	4.81
Real estate home equity lines	13,565.2	1,032.3	7.61	12,361.1	740.4	5.99	8,502.6	370.4	4.36
Real estate commercial	12,803.7	866.6	6.77	11,865.6	691.4	5.83	9,427.9	446.0	4.73
Commercial - FTE <sup>2</sup>	33,836.1	2,087.4	6.17	32,852.2	1,688.7	5.14	28,962.4	1,134.5	3.92
Business credit card	315.3	19.1	6.09	226.7	14.9	6.58	160.5	10.7	6.69
Consumer - direct	4,460.8	313.6	7.03	5,690.7	336.3	5.91	4,375.4	221.5	5.06
Consumer - indirect	8,376.6	477.6	5.70	8,833.4	476.7	5.40	8,802.4	501.6	5.70
Nonaccrual and restructured	430.1	16.6	3.85	318.5	13.2	4.14	293.1	19.0	6.48
Total loans	119,645.2	7,759.6	6.49	108,742.0	6,019.9	5.54	86,214.5	3,994.1	4.63
Securities available for sale:									
Taxable	23,430.9	1,146.8	4.89	25,557.9	1,137.0	4.45	23,429.8	917.1	3.91
Tax-exempt <sup>2</sup>	954.5	55.8	5.85	868.7	51.7	5.95	617.1	37.7	6.11
Total securities available for sale	24,385.4	1,202.6	4.93	26,426.6	1,188.7	4.50	24,046.9	954.8	3.97
Funds sold and securities under agreements to resell	1,158.6	57.0	4.92	1,404.8	43.2	3.08	1,376.9	18.6	1.35
Loans held for sale	11,082.8	728.0	6.57	8,447.8	485.7	5.75	5,427.1	281.3	5.18
Interest-bearing deposits	93.4	3.3	3.59	25.0	0.9	3.47	18.1	0.2	0.98
Interest earning trading assets	2,063.3	129.5	6.28	1,593.6	68.4	4.29	885.3	27.8	3.14
Total earning assets	158,428.7	9,880.0	6.24	146,639.8	7,806.8	5.32	117,968.8	5,276.8	4.47
Allowance for loan and lease losses	(1,061.3)			(1,041.8)			(989.5)		
Cash and due from banks	3,834.8			4,313.4			3,732.9		
Premises and equipment	1,915.8			1,846.6			1,672.7		
Other assets	14,619.1			13,585.9			8,060.4		
Noninterest earning trading assets	957.5			795.5			936.8		
Unrealized gains on securities available for sale	1,620.5			1,949.4			2,372.2		
Total assets	\$180,315.1			\$168,088.8			\$133,754.3		

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