

SUNTRUST BANKS INC  
Form 10-Q  
November 07, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

Commission File Number 001-08918

SUNTRUST BANKS, INC.  
(Exact name of registrant as specified in its charter)

Georgia  
(State or other jurisdiction  
of incorporation or organization)  
303 Peachtree Street, N.E., Atlanta, Georgia 30308  
(Address of principal executive offices) (Zip Code)  
(404) 588-7711  
(Registrant's telephone number, including area code)

58-1575035  
(I.R.S. Employer  
Identification No.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

✓ Yes ☐ No

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

Large accelerated filer ☒ x

Accelerated filer ☐ o

Non-accelerated filer ☐ o

Smaller reporting company ☐ o

(Do not check if a smaller reporting company)

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

At October 31, 2012, 538,828,728 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding.



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## GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.  
ACH — Automated clearing house.  
AFS — Available for sale.  
Agreements — Equity forward agreements.  
AIP — Annual Incentive Plan.  
ALCO — Asset/Liability Management Committee.  
ALM — Asset/Liability Management.  
ALLL — Allowance for loan and lease losses.  
AOCI — Accumulated other comprehensive income.  
ARS — Auction rate securities.  
ASU — Accounting standards update.  
ATE — Additional termination event.  
ATM — Automated teller machine.  
Bank — SunTrust Bank.  
BCBS — Basel Committee on Banking Supervision.  
Board — The Company's Board of Directors.  
CCAR — Comprehensive Capital Analysis and Review.  
CDO — Collateralized debt obligation.  
CD — Certificate of deposit.  
CDS — Credit default swaps.  
CIB — Corporate and Investment Banking.  
Class A shares — Visa Inc. Class A common stock.  
Class B shares — Visa Inc. Class B common stock.  
CLO — Collateralized loan obligation.  
Coke — The Coca-Cola Company.  
Coke Counterparty — a large, unaffiliated financial institution with whom the Company entered into the Agreements.  
Coke Stock Split — the two-for-one stock split of shares of The Coca-Cola Company effective August 10, 2012.  
Company — SunTrust Banks, Inc.  
CP — Commercial paper.  
CPP — Capital Purchase Program.  
CSA — Credit support annex.  
DBRS — Dun and Bradstreet, Inc.  
DDA — Demand deposit account.  
Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.  
EPS — Earnings per share.  
ERISA — Employee Retirement Income Security Act of 1974.  
Exchange Act — Securities Exchange Act of 1934.  
FASB — Financial Accounting Standards Board.  
FDIC — The Federal Deposit Insurance Corporation.  
Federal Reserve — The Board of Governors of the Federal Reserve System.

Fed funds — Federal funds.  
FFELP — Federal Family Education Loan Program.  
FHA — Federal Housing Administration.  
FHLB — Federal Home Loan Bank.  
FICO — Fair Isaac Corporation.  
FINRA — Financial Industry Regulatory Authority.  
Fitch — Fitch Ratings Ltd.  
FRB — Federal Reserve Board.  
FTE — Fully taxable-equivalent.  
FVO — Fair value option.  
GenSpring — GenSpring Family Offices, LLC.  
GSE — Government-sponsored enterprise.  
HUD — U.S. Department of Housing and Urban Development.  
IFRS — International Financial Reporting Standards.  
IIS — Institutional Investment Solutions.  
IPO — Initial public offering.  
IRLC — Interest rate lock commitment.  
ISDA — International Swaps and Derivatives Association.  
LGD — Loss given default.  
LHFI — Loans held for investment.  
LHFI-FV — Loans held for investment carried at fair value.  
LHFS — Loans held for sale.  
LIBOR — London InterBank Offered Rate.  
LOCOM — Lower of cost or market.  
LTI — Long-term incentive.  
LTV — Loan to value.  
MBS — Mortgage-backed securities.  
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations.  
Moody's — Moody's Investors Service.  
MSR — Mortgage servicing right.  
MVE — Market value of equity.  
NEO — Named executive officers.  
NII — Net interest income.  
NOW — Negotiable order of withdrawal account.  
NPL — Nonperforming loan.  
NPR — Notice of Proposed Rulemaking.  
OCC — Office of the Comptroller of the Currency.  
OCI — Other comprehensive income.  
OREO — Other real estate owned.  
OTC — Over-the-counter.  
OTTI — Other-than-temporary impairment.

Parent Company — SunTrust Banks, Inc., the parent Company of SunTrust Bank and other subsidiaries of SunTrust Banks, Inc.

PD — Probability of default.

PPG — Playbook for profitable growth.

QSPE — Qualifying special-purpose entity.

RidgeWorth — RidgeWorth Capital Management, Inc.

ROA — Return on average total assets.

ROE — Return on average common shareholders' equity.

RSU — Restricted stock unit.

RWA — Risk-weighted assets.

S&P — Standard and Poor's.

SBA — Small Business Administration.

SEC — U.S. Securities and Exchange Commission.

SERP — Supplemental Executive Retirement Plan.

SPE — Special purpose entity.

STIS — SunTrust Investment Services, Inc.

STM — SunTrust Mortgage, Inc.

STRH — SunTrust Robinson Humphrey, Inc.

SunTrust — SunTrust Banks, Inc.

TARP — Troubled Asset Relief Program.

TDR — Troubled debt restructuring.

Three Pillars — Three Pillars Funding, LLC.

TRS — Total return swaps.

U.S. — United States.

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

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

VA — Veterans Administration.

VAR — Value at risk.

VI — Variable interest.

VIE — Variable interest entity.

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

Visa Counterparty — a financial institution which purchased the Company's Visa Class B shares.

W&IM — Wealth and Investment Management.

## PART I – FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012.

## Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

## Consolidated Statements of Income

|                                                                                  | For the Three Months Ended<br>September 30 |         | For the Nine Months Ended<br>September 30 |         |
|----------------------------------------------------------------------------------|--------------------------------------------|---------|-------------------------------------------|---------|
| (Dollars in millions and shares in thousands, except per share data) (Unaudited) | 2012                                       | 2011    | 2012                                      | 2011    |
| Interest Income                                                                  |                                            |         |                                           |         |
| Interest and fees on loans                                                       | \$1,257                                    | \$1,296 | \$3,820                                   | \$3,910 |
| Interest and fees on loans held for sale                                         | 29                                         | 21      | 84                                        | 71      |
| Interest and dividends on securities available for sale:                         |                                            |         |                                           |         |
| Taxable interest                                                                 | 132                                        | 175     | 454                                       | 517     |
| Tax-exempt interest                                                              | 4                                          | 5       | 12                                        | 16      |
| Dividends <sup>1</sup>                                                           | 8                                          | 20      | 53                                        | 61      |
| Trading account interest and other                                               | 15                                         | 21      | 48                                        | 63      |
| Total interest income                                                            | 1,445                                      | 1,538   | 4,471                                     | 4,638   |
| Interest Expense                                                                 |                                            |         |                                           |         |
| Interest on deposits                                                             | 98                                         | 154     | 342                                       | 485     |
| Interest on long-term debt                                                       | 66                                         | 110     | 244                                       | 347     |
| Interest on other borrowings                                                     | 10                                         | 11      | 29                                        | 35      |
| Total interest expense                                                           | 174                                        | 275     | 615                                       | 867     |
| Net interest income                                                              | 1,271                                      | 1,263   | 3,856                                     | 3,771   |
| Provision for credit losses                                                      | 450                                        | 347     | 1,067                                     | 1,186   |
| Net interest income after provision for credit losses                            | 821                                        | 916     | 2,789                                     | 2,585   |
| Noninterest Income                                                               |                                            |         |                                           |         |
| Service charges on deposit accounts                                              | 172                                        | 176     | 504                                       | 509     |
| Other charges and fees                                                           | 116                                        | 130     | 361                                       | 386     |
| Card fees                                                                        | 55                                         | 104     | 183                                       | 309     |
| Trust and investment management income                                           | 127                                        | 134     | 387                                       | 404     |
| Retail investment services                                                       | 60                                         | 58      | 180                                       | 175     |
| Investment banking income                                                        | 83                                         | 68      | 230                                       | 231     |
| Trading income                                                                   | 19                                         | 66      | 145                                       | 171     |
| Mortgage production related (loss)/income                                        | (64)                                       | ) 54    | 102                                       | 56      |
| Mortgage servicing related income                                                | 64                                         | 58      | 215                                       | 202     |
| Net securities gains <sup>2</sup>                                                | 1,941                                      | 2       | 1,973                                     | 98      |
| Other noninterest (loss)/income                                                  | (31)                                       | ) 53    | 78                                        | 157     |
| Total noninterest income                                                         | 2,542                                      | 903     | 4,358                                     | 2,698   |
| Noninterest Expense                                                              |                                            |         |                                           |         |
| Employee compensation                                                            | 670                                        | 642     | 1,977                                     | 1,898   |
| Employee benefits                                                                | 110                                        | 108     | 363                                       | 354     |
| Outside processing and software                                                  | 171                                        | 164     | 527                                       | 484     |
| Net occupancy expense                                                            | 92                                         | 90      | 267                                       | 268     |
| Marketing and customer development                                               | 75                                         | 41      | 134                                       | 125     |
| Operating losses                                                                 | 71                                         | 72      | 200                                       | 161     |
| Regulatory assessments                                                           | 67                                         | 80      | 179                                       | 232     |
| Credit and collection services                                                   | 65                                         | 71      | 181                                       | 182     |
| Equipment expense                                                                | 49                                         | 44      | 140                                       | 132     |
| Other staff expense                                                              | 41                                         | 18      | 75                                        | 53      |
| Consulting and legal fees                                                        | 40                                         | 34      | 116                                       | 77      |
| Other real estate expense                                                        | 30                                         | 62      | 133                                       | 195     |

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|                                                                            |         |         |         |         |
|----------------------------------------------------------------------------|---------|---------|---------|---------|
| Amortization/impairment of goodwill/intangible assets                      | 17      | 11      | 39      | 34      |
| Net loss/(gain) on debt extinguishment                                     | 2       | (1 )    | 15      | (3 )    |
| Other noninterest expense                                                  | 226     | 124     | 467     | 375     |
| Total noninterest expense                                                  | 1,726   | 1,560   | 4,813   | 4,567   |
| Income before provision for income taxes                                   | 1,637   | 259     | 2,334   | 716     |
| Provision for income taxes                                                 | 551     | 45      | 710     | 136     |
| Net income including income/(loss) attributable to noncontrolling interest | 1,086   | 214     | 1,624   | 580     |
| Net income/(loss) attributable to noncontrolling interest                  | 9       | (1 )    | 22      | 7       |
| Net income                                                                 | \$1,077 | \$215   | \$1,602 | \$573   |
| Net income available to common shareholders                                | \$1,066 | \$211   | \$1,581 | \$424   |
| Net income per average common share:                                       |         |         |         |         |
| Diluted                                                                    | \$1.98  | \$0.39  | \$2.94  | \$0.81  |
| Basic                                                                      | 1.99    | 0.40    | 2.96    | 0.81    |
| Dividends declared per common share                                        | 0.05    | 0.05    | 0.15    | 0.07    |
| Average common shares - diluted                                            | 538,699 | 535,395 | 537,538 | 524,888 |
| Average common shares - basic                                              | 534,506 | 531,928 | 533,859 | 521,248 |

<sup>1</sup> Includes dividends on common stock of The Coca-Cola Company of \$14 million during the three months ended September 30, 2011, \$31 million during the nine months ended September 30, 2012, and \$42 million during the nine months ended September 30, 2011.

<sup>2</sup> Includes credit-related OTTI losses of \$3 million and \$7 million for the three and nine months ended September 30, 2012, respectively, and \$0 and \$2 million for the three and nine months ended September 30, 2011, respectively. There were no non-credit related unrealized OTTI losses recorded in OCI, before taxes, for the three and nine months ended September 30, 2012 and 2011.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.

Consolidated Statements of Comprehensive (Loss)/Income

|                                                                                                              | For the Three<br>Months Ended<br>September 30 |       | For the Nine<br>Months Ended<br>September 30 |       |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------|----------------------------------------------|-------|
| (Dollars in millions) (Unaudited)                                                                            | 2012                                          | 2011  | 2012                                         | 2011  |
| Net income                                                                                                   | \$1,077                                       | \$215 | \$1,602                                      | \$573 |
| Components of other comprehensive (loss)/income:                                                             |                                               |       |                                              |       |
| Change in net unrealized gains on securities, net of tax of (\$795), \$100, (\$688), and \$170, respectively | (1,448 )                                      | 173   | (1,256 )                                     | 294   |
| Change in net unrealized gains on derivatives, net of tax of \$111, \$105, \$15, and \$74, respectively      | 204                                           | 182   | 34                                           | 129   |
| Change related to employee benefit plans, net of tax of \$3, \$2, (\$13), and (\$7), respectively            | 5                                             | 4     | (23 )                                        | (13 ) |
| Total other comprehensive (loss)/income                                                                      | (1,239 )                                      | 359   | (1,245 )                                     | 410   |
| Total comprehensive (loss)/income                                                                            | (\$162 )                                      | \$574 | \$357                                        | \$983 |
| See Notes to Consolidated Financial Statements (unaudited).                                                  |                                               |       |                                              |       |

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SunTrust Banks, Inc.  
Consolidated Balance Sheets

|                                                                                                                              | As of<br>September 30,<br>2012 | December 31,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------|
| (Dollars in millions and shares in thousands) (Unaudited)                                                                    |                                |                      |
| Assets                                                                                                                       |                                |                      |
| Cash and due from banks                                                                                                      | \$4,655                        | \$3,696              |
| Securities purchased under agreements to resell                                                                              | 930                            | 792                  |
| Interest-bearing deposits in other banks                                                                                     | 22                             | 21                   |
| Cash and cash equivalents                                                                                                    | 5,607                          | 4,509                |
| Trading assets (including encumbered securities of \$614 as of September 30, 2012 and \$574 as of December 31, 2011)         | 6,381                          | 6,279                |
| Securities available for sale                                                                                                | 21,467                         | 28,117               |
| Loans held for sale <sup>1</sup> (loans at fair value: \$3,222 as of September 30, 2012 and \$2,141 as of December 31, 2011) | 5,205                          | 2,353                |
| Loans <sup>2</sup> (loans at fair value: \$390 as of September 30, 2012 and \$433 as of December 31, 2011)                   | 121,817                        | 122,495              |
| Allowance for loan and lease losses                                                                                          | (2,239)                        | (2,457)              |
| Net loans                                                                                                                    | 119,578                        | 120,038              |
| Premises and equipment                                                                                                       | 1,578                          | 1,564                |
| Goodwill                                                                                                                     | 6,369                          | 6,344                |
| Other intangible assets (MSRs at fair value: \$831 as of September 30, 2012 and \$921 as of December 31, 2011)               | 896                            | 1,017                |
| Other real estate owned                                                                                                      | 304                            | 479                  |
| Other assets                                                                                                                 | 5,796                          | 6,159                |
| Total assets                                                                                                                 | \$173,181                      | \$176,859            |
| Liabilities and Shareholders' Equity                                                                                         |                                |                      |
| Noninterest-bearing consumer and commercial deposits                                                                         | \$37,592                       | \$34,359             |
| Interest-bearing consumer and commercial deposits                                                                            | 87,306                         | 91,252               |
| Total consumer and commercial deposits                                                                                       | 124,898                        | 125,611              |
| Brokered time deposits (CDs at fair value: \$900 as of September 30, 2012 and \$1,018 as of December 31, 2011)               | 2,198                          | 2,281                |
| Foreign deposits                                                                                                             | 130                            | 30                   |
| Total deposits                                                                                                               | 127,226                        | 127,922              |
| Funds purchased                                                                                                              | 680                            | 839                  |
| Securities sold under agreements to repurchase                                                                               | 1,630                          | 1,644                |
| Other short-term borrowings                                                                                                  | 6,511                          | 8,983                |
| Long-term debt <sup>3</sup> (debt at fair value: \$2,050 as of September 30, 2012 and \$1,997 as of December 31, 2011)       | 10,765                         | 10,908               |
| Trading liabilities                                                                                                          | 1,458                          | 1,806                |
| Other liabilities                                                                                                            | 4,512                          | 4,691                |
| Total liabilities                                                                                                            | 152,782                        | 156,793              |
| Preferred stock, no par value                                                                                                | 275                            | 275                  |
| Common stock, \$1.00 par value                                                                                               | 550                            | 550                  |
| Additional paid in capital                                                                                                   | 9,195                          | 9,306                |
| Retained earnings                                                                                                            | 10,491                         | 8,978                |
| Treasury stock, at cost, and other <sup>4</sup>                                                                              | (616)                          | (792)                |
| Accumulated other comprehensive income, net of tax                                                                           | 504                            | 1,749                |
| Total shareholders' equity                                                                                                   | 20,399                         | 20,066               |
| Total liabilities and shareholders' equity                                                                                   | \$173,181                      | \$176,859            |

|                                                                                                                                  |         |         |
|----------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| Common shares outstanding                                                                                                        | 538,821 | 536,967 |
| Common shares authorized                                                                                                         | 750,000 | 750,000 |
| Preferred shares outstanding                                                                                                     | 3       | 3       |
| Preferred shares authorized                                                                                                      | 50,000  | 50,000  |
| Treasury shares of common stock                                                                                                  | 11,100  | 12,954  |
| <sup>1</sup> Includes loans held for sale, at fair value, of consolidated VIEs                                                   | \$328   | \$315   |
| <sup>2</sup> Includes loans of consolidated VIEs                                                                                 | 374     | 3,322   |
| <sup>3</sup> Includes debt of consolidated VIEs (\$287 at fair value as of September 30, 2012 and \$289 as of December 31, 2011) | 683     | 722     |
| <sup>4</sup> Includes noncontrolling interest held                                                                               | 114     | 107     |

See Notes to Consolidated Financial Statements (unaudited).

## SunTrust Banks, Inc.

## Consolidated Statements of Shareholders' Equity

| (Dollars and shares in millions, except per share data) (Unaudited) | Preferred Stock | Common Shares Outstanding | Common Stock | Additional Paid in Capital | Retained Earnings | Treasury Stock and Other <sup>1</sup> | Accumulated Other Comprehensive Income <sup>2</sup> | Total    |
|---------------------------------------------------------------------|-----------------|---------------------------|--------------|----------------------------|-------------------|---------------------------------------|-----------------------------------------------------|----------|
| Balance, January 1, 2011                                            | \$4,942         | 500                       | \$515        | \$8,403                    | \$8,542           | (\$888 )                              | \$1,616                                             | \$23,130 |
| Net income                                                          | —               | —                         | —            | —                          | 573               | —                                     | —                                                   | 573      |
| Other comprehensive income                                          | —               | —                         | —            | —                          | —                 | —                                     | 410                                                 | 410      |
| Change in noncontrolling interest                                   | —               | —                         | —            | —                          | —                 | (8 )                                  | —                                                   | (8 )     |
| Common stock dividends, \$0.07 per share                            | —               | —                         | —            | —                          | (37 )             | —                                     | —                                                   | (37 )    |
| Preferred stock dividends, \$3,044 per share                        | —               | —                         | —            | —                          | (5 )              | —                                     | —                                                   | (5 )     |
| U.S. Treasury preferred stock dividends, \$1,236 per share          | —               | —                         | —            | —                          | (60 )             | —                                     | —                                                   | (60 )    |
| Accretion of discount for preferred stock issued to U.S. Treasury   | —               | —                         | —            | —                          | (6 )              | —                                     | —                                                   | —        |
| Repurchase of preferred stock issued to U.S. Treasury               | (4,776 )        | —                         | —            | —                          | (74 )             | —                                     | —                                                   | (4,850 ) |
| Purchase of outstanding warrants                                    | —               | —                         | —            | (11 )                      | —                 | —                                     | —                                                   | (11 )    |
| Issuance of common stock                                            | —               | 35                        | 35           | 982                        | —                 | —                                     | —                                                   | 1,017    |
| Stock compensation expense                                          | —               | —                         | —            | 9                          | —                 | —                                     | —                                                   | 9        |
| Restricted stock activity                                           | —               | 2                         | —            | (57 )                      | —                 | 49                                    | —                                                   | (8 )     |
| Amortization of restricted stock compensation                       | —               | —                         | —            | —                          | —                 | 25                                    | —                                                   | 25       |
| Issuance of stock for employee benefit plans and other              | —               | —                         | —            | (12 )                      | —                 | 27                                    | —                                                   | 15       |
| Balance, September 30, 2011                                         | \$172           | 537                       | \$550        | \$9,314                    | \$8,933           | (\$795 )                              | \$2,026                                             | \$20,200 |
| Balance, January 1, 2012                                            | \$275           | 537                       | \$550        | \$9,306                    | \$8,978           | (\$792 )                              | \$1,749                                             | \$20,066 |
| Net income                                                          | —               | —                         | —            | —                          | 1,602             | —                                     | —                                                   | 1,602    |
| Other comprehensive loss                                            | —               | —                         | —            | —                          | —                 | —                                     | (1,245 )                                            | (1,245 ) |
| Change in noncontrolling interest                                   | —               | —                         | —            | —                          | —                 | 7                                     | —                                                   | 7        |
| Common stock dividends, \$0.15 per share                            | —               | —                         | —            | —                          | (81 )             | —                                     | —                                                   | (81 )    |
| Preferred stock dividends, \$3,056 per share                        | —               | —                         | —            | —                          | (8 )              | —                                     | —                                                   | (8 )     |
| Exercise of stock options and stock compensation expense            | —               | 1                         | —            | (35 )                      | —                 | 51                                    | —                                                   | 16       |
| Restricted stock activity                                           | —               | 1                         | —            | (64 )                      | —                 | 69                                    | —                                                   | 5        |
| Amortization of restricted stock compensation                       | —               | —                         | —            | —                          | —                 | 22                                    | —                                                   | 22       |
| Issuance of stock for employee benefit plans and other              | —               | —                         | —            | (12 )                      | —                 | 27                                    | —                                                   | 15       |

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|                             |       |     |       |         |          |          |       |          |
|-----------------------------|-------|-----|-------|---------|----------|----------|-------|----------|
| Balance, September 30, 2012 | \$275 | 539 | \$550 | \$9,195 | \$10,491 | (\$616 ) | \$504 | \$20,399 |
|-----------------------------|-------|-----|-------|---------|----------|----------|-------|----------|

<sup>1</sup> At September 30, 2012, includes (\$673) million for treasury stock, (\$57) million for compensation element of restricted stock, and \$114 million for noncontrolling interest.

At September 30, 2011, includes (\$858) million for treasury stock, (\$58) million for compensation element of restricted stock, and \$121 million for noncontrolling interest.

<sup>2</sup> Components of AOCI at September 30, 2012, included \$607 million in unrealized net gains on AFS securities, \$603 million in unrealized net gains on derivative financial instruments, and (\$706) million related to employee benefit plans. At September 30, 2011, components included \$1,820 million in unrealized net gains on AFS securities, \$661 million in unrealized net gains on derivative financial instruments, and (\$455) million related to employee benefit plans.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.  
Consolidated Statements of Cash Flows

|                                                                                                                             | Nine Months Ended<br>September 30 |          |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------|
| (Dollars in millions) (Unaudited)                                                                                           | 2012                              | 2011     |
| Cash Flows from Operating Activities                                                                                        |                                   |          |
| Net income including income attributable to noncontrolling interest                                                         | \$1,624                           | \$580    |
| Adjustments to reconcile net income to net cash provided by operating activities:                                           |                                   |          |
| Depreciation, amortization, and accretion                                                                                   | 567                               | 563      |
| Origination of mortgage servicing rights                                                                                    | (244)                             | (183)    |
| Provisions for credit losses and foreclosed property                                                                        | 1,191                             | 1,309    |
| Mortgage repurchase provision                                                                                               | 701                               | 287      |
| Net securities gains                                                                                                        | (1,973)                           | (98)     |
| Net gain on sale of loans held for sale, loans, and other assets                                                            | (865)                             | (309)    |
| Net (increase)/decrease in loans held for sale                                                                              | (199)                             | 2,146    |
| Net decrease/(increase) in other assets                                                                                     | 457                               | (556)    |
| Net decrease in other liabilities                                                                                           | (313)                             | —        |
| Net cash provided by operating activities                                                                                   | 946                               | 3,739    |
| Cash Flows from Investing Activities                                                                                        |                                   |          |
| Proceeds from maturities, calls, and paydowns of securities available for sale                                              | 5,431                             | 3,903    |
| Proceeds from sales of securities available for sale                                                                        | 4,195                             | 11,585   |
| Purchases of securities available for sale                                                                                  | (3,097)                           | (15,664) |
| Proceeds from maturities, calls, and paydowns of trading securities                                                         | —                                 | 132      |
| Proceeds from sales of trading securities                                                                                   | —                                 | 102      |
| Net increase in loans, including purchases of loans                                                                         | (4,833)                           | (5,018)  |
| Proceeds from sales of loans                                                                                                | 2,041                             | 499      |
| Capital expenditures                                                                                                        | (168)                             | (78)     |
| Payments related to acquisitions, including contingent consideration                                                        | (13)                              | (20)     |
| Proceeds from the sale of other real estate owned and other assets                                                          | 363                               | 481      |
| Net cash provided by/(used in) investing activities                                                                         | 3,919                             | (4,078)  |
| Cash Flows from Financing Activities                                                                                        |                                   |          |
| Net (decrease)/increase in total deposits                                                                                   | (696)                             | 3,207    |
| Net (decrease)/increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | (2,645)                           | 1,416    |
| Proceeds from the issuance of long-term debt                                                                                | 4,000                             | 1,039    |
| Repayment of long-term debt                                                                                                 | (4,359)                           | (1,255)  |
| Proceeds from the issuance of common stock                                                                                  | —                                 | 1,017    |
| Repurchase of preferred stock                                                                                               | —                                 | (4,850)  |
| Purchase of outstanding warrants                                                                                            | —                                 | (11)     |
| Common and preferred dividends paid                                                                                         | (89)                              | (102)    |
| Other financing activities                                                                                                  | 22                                | —        |
| Net cash (used in)/provided by financing activities                                                                         | (3,767)                           | 461      |
| Net increase in cash and cash equivalents                                                                                   | 1,098                             | 122      |
| Cash and cash equivalents at beginning of period                                                                            | 4,509                             | 5,378    |
| Cash and cash equivalents at end of period                                                                                  | \$5,607                           | \$5,500  |
| Supplemental Disclosures:                                                                                                   |                                   |          |
| Loans transferred from loans held for sale to loans                                                                         | \$34                              | \$53     |
| Loans transferred from loans to loans held for sale                                                                         | 3,112                             | 657      |

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|                                                                                 |     |     |
|---------------------------------------------------------------------------------|-----|-----|
| Loans transferred from loans and loans held for sale to other real estate owned | 304 | 570 |
| Accretion of discount for preferred stock issued to the U.S. Treasury           | —   | 80  |

See Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could vary from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company evaluated subsequent events through the date its financial statements were issued.

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2011. During the three months ended September 30, 2012, the Company elected to revise its credit policy related to the nonaccrual status and timing of charge-off recognition of second lien loans. The Company began classifying second lien loans as nonaccrual when the first lien loan is classified as nonaccrual, even if the second lien loan is performing, and as a result, the Company reclassified \$81 million of performing second lien loans to nonaccrual. Additionally, the Company previously charged-off second lien loans at 180 days past due, but implemented a change in policy in the third quarter of 2012 to recognize the charge-off at 120 days past due as the analysis indicated that when a second lien loan becomes 120 days past due, the vast majority of these loans ultimately experience a charge-off. The change in credit policy resulted in \$65 million of incremental charge-offs during the three and nine months ended September 30, 2012.

Except for accounting policies that have been recently adopted as described below, and the policy change related to second lien loans noted above, there have been no significant changes to the Company's accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The primary purpose of the ASU was to conform the language in the fair value measurements guidance in U.S. GAAP and IFRS. The ASU also clarified how to apply existing fair value measurement and disclosure requirements. Further, the ASU required additional disclosures about transfers between level 1 and 2 of the fair value hierarchy, quantitative information for level 3 inputs, and the level of the fair value measurement hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. The ASU was effective for the interim reporting period ending March 31, 2012. The Company adopted the standard as of January 1, 2012, and the required disclosures are included in Note 12, "Fair Value Election and Measurement." The adoption did not impact the Company's financial position, results of operations, or EPS.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." The ASU requires presentation of the components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The update does not change the items presented in OCI and does not affect the calculation or reporting of EPS. In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in ASU 2011-05," which deferred the effective date for the amendments to the reclassification of items out of AOCI. In June 2012, the FASB decided that the presentation requirements deferred in ASU 2011-12 would not be reinstated. The guidance, with the exception of reclassification adjustments, was effective on January 1, 2012, and must be applied retrospectively for all periods presented. The Company adopted the standard as of January 1, 2012, and the required disclosures are included in the Consolidated Statements of Comprehensive (Loss)/Income. The adoption did not impact the Company's financial position, results of operations, or EPS.

In September 2011, the FASB issued ASU 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The ASU amends interim and annual goodwill impairment testing requirements such that an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The guidance was effective for annual and interim goodwill impairment tests beginning on or after January 1, 2012. The Company adopted the standard as of January 1, 2012. The adoption did not have an impact on the Company's financial position, results of operations, or EPS.

## Notes to Consolidated Financial Statements (Unaudited), continued

In July 2012, the FASB issued ASU 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." The ASU permits entities to perform an optional qualitative assessment for determining whether it is more likely than not that an indefinite-lived intangible asset is impaired. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company has evaluated this ASU and it is not expected to impact the Company's financial position, results of operations, or EPS when adopted.

In October 2012, the FASB issued ASU 2012-04, "Technical Corrections and Improvements." The ASU prescribes technical corrections and improvements to the Accounting Standards Codification for source literature amendments, guidance clarification and reference corrections, and relocated guidance within the Accounting Standards Codification. The ASU is effective for fiscal periods beginning after December 15, 2012. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

## NOTE 2 – SECURITIES AVAILABLE FOR SALE

## Securities Portfolio Composition

| (Dollars in millions)                  | September 30, 2012 |                  |                   |            |
|----------------------------------------|--------------------|------------------|-------------------|------------|
|                                        | Amortized Cost     | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities               | \$213              | \$11             | \$—               | \$224      |
| Federal agency securities              | 1,713              | 89               | —                 | 1,802      |
| U.S. states and political subdivisions | 343                | 18               | 6                 | 355        |
| MBS - agency                           | 16,705             | 881              | —                 | 17,586     |
| MBS - private                          | 213                | 4                | —                 | 217        |
| ABS                                    | 260                | 5                | 4                 | 261        |
| Corporate and other debt securities    | 42                 | 4                | —                 | 46         |
| Other equity securities <sup>1</sup>   | 975                | 1                | —                 | 976        |
| Total securities AFS                   | \$20,464           | \$1,013          | \$10              | \$21,467   |

| (Dollars in millions)                  | December 31, 2011 |                  |                   |            |
|----------------------------------------|-------------------|------------------|-------------------|------------|
|                                        | Amortized Cost    | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities               | \$671             | \$23             | \$—               | \$694      |
| Federal agency securities              | 1,843             | 89               | —                 | 1,932      |
| U.S. states and political subdivisions | 437               | 21               | 4                 | 454        |
| MBS - agency                           | 20,480            | 743              | —                 | 21,223     |
| MBS - private                          | 252               | —                | 31                | 221        |
| CDO/CLO securities                     | 50                | —                | —                 | 50         |
| ABS                                    | 460               | 11               | 7                 | 464        |
| Corporate and other debt securities    | 49                | 2                | —                 | 51         |
| Coke common stock                      | —                 | 2,099            | —                 | 2,099      |
| Other equity securities <sup>1</sup>   | 928               | 1                | —                 | 929        |
| Total securities AFS                   | \$25,170          | \$2,989          | \$42              | \$28,117   |

<sup>1</sup>At September 30, 2012, other equity securities included the following securities at cost: \$432 million in FHLB of Atlanta stock, \$401 million in Federal Reserve Bank stock, and \$141 million in mutual fund investments. At December 31, 2011, other equity securities included the following securities at cost: \$342 million in FHLB of Atlanta stock, \$398 million in Federal Reserve Bank stock, and \$187 million in mutual fund investments.

Securities AFS that were pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of \$8.1 billion and \$9.1 billion as of September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012 and December 31, 2011, there were no securities AFS pledged under which the transferee may repledge the collateral. The Company has also pledged \$939 million and \$770 million of certain other marketable securities and cash equivalents to secure \$907 million and \$747 million of repurchase agreements as of September 30, 2012 and December 31, 2011, respectively.

## Notes to Consolidated Financial Statements (Unaudited), continued

During the three months ended September 30, 2012, the Company terminated the Agreements that hedged the Coke common stock, and the Company sold, in the market or to the Coke Counterparty, 59 million of its 60 million shares of Coke and contributed the remaining 1 million shares of Coke to the SunTrust Foundation for a net gain of \$1.9 billion. The contribution to the SunTrust Foundation increased noninterest expense by \$38 million during the three and nine months ended September 30, 2012. Details of the transactions are discussed in Note 10, "Derivative Financial Instruments."

The amortized cost and fair value of investments in debt securities at September 30, 2012, by estimated average life, are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

|                                        | Distribution of Maturities |              |               |                   |          |   |
|----------------------------------------|----------------------------|--------------|---------------|-------------------|----------|---|
| (Dollars in millions)                  | 1 Year<br>or Less          | 1-5<br>Years | 5-10<br>Years | After 10<br>Years | Total    |   |
| Amortized Cost:                        |                            |              |               |                   |          |   |
| U.S. Treasury securities               | \$11                       | \$202        | \$—           | \$—               | \$213    |   |
| Federal agency securities              | 153                        | 1,349        | 84            | 127               | 1,713    |   |
| U.S. states and political subdivisions | 103                        | 172          | 19            | 49                | 343      |   |
| MBS - agency                           | 947                        | 14,539       | 1,027         | 192               | 16,705   |   |
| MBS - private                          | —                          | 129          | 84            | —                 | 213      |   |
| ABS                                    | 159                        | 71           | 2             | 28                | 260      |   |
| Corporate and other debt securities    | 4                          | 21           | 17            | —                 | 42       |   |
| Total debt securities                  | \$1,377                    | \$16,483     | \$1,233       | \$396             | \$19,489 |   |
| Fair Value:                            |                            |              |               |                   |          |   |
| U.S. Treasury securities               | \$11                       | \$213        | \$—           | \$—               | \$224    |   |
| Federal agency securities              | 155                        | 1,420        | 95            | 132               | 1,802    |   |
| U.S. states and political subdivisions | 105                        | 184          | 19            | 47                | 355      |   |
| MBS - agency                           | 1,006                      | 15,294       | 1,082         | 204               | 17,586   |   |
| MBS - private                          | —                          | 130          | 87            | —                 | 217      |   |
| ABS                                    | 160                        | 69           | 2             | 30                | 261      |   |
| Corporate and other debt securities    | 4                          | 22           | 20            | —                 | 46       |   |
| Total debt securities                  | \$1,441                    | \$17,332     | \$1,305       | \$413             | \$20,491 |   |
|                                        |                            |              |               |                   |          |   |
| Weighted average yield <sup>1</sup>    | 3.47                       | % 2.95       | % 3.68        | % 3.38            | % 3.03   | % |

<sup>1</sup> Average yields are based on amortized cost and presented on a fully taxable-equivalent basis.

#### Securities in an Unrealized Loss Position

The Company held certain investment securities having unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market price of securities fluctuates. As of September 30, 2012, the Company did not intend to sell these securities nor was it more-likely-than-not that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies outlined in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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## Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                                     | September 30, 2012      |            |                         |            |            |            |
|-----------------------------------------------------------|-------------------------|------------|-------------------------|------------|------------|------------|
|                                                           | Less than twelve months | Unrealized | Twelve months or longer | Unrealized | Total      | Unrealized |
|                                                           | Fair Value              | Losses     | Fair Value              | Losses     | Fair Value | Losses     |
| Temporarily impaired securities:                          |                         |            |                         |            |            |            |
| Federal agency securities                                 | \$30                    | \$—        | \$—                     | \$—        | \$30       | \$—        |
| U.S. states and political subdivisions                    | —                       | —          | 25                      | 6          | 25         | 6          |
| MBS - agency                                              | 49                      | —          | —                       | —          | 49         | —          |
| ABS                                                       | —                       | —          | 12                      | 2          | 12         | 2          |
| Total temporarily impaired securities                     | 79                      | —          | 37                      | 8          | 116        | 8          |
| Other-than-temporarily impaired securities <sup>1</sup> : |                         |            |                         |            |            |            |
| MBS - private                                             | —                       | —          | 46                      | —          | 46         | —          |
| ABS                                                       | —                       | —          | 4                       | 2          | 4          | 2          |
| Total other-than-temporarily impaired securities          | —                       | —          | 50                      | 2          | 50         | 2          |
| Total impaired securities                                 | \$79                    | \$—        | \$87                    | \$10       | \$166      | \$10       |
|                                                           |                         |            |                         |            |            |            |
| (Dollars in millions)                                     | December 31, 2011       |            |                         |            |            |            |
|                                                           | Less than twelve months | Unrealized | Twelve months or longer | Unrealized | Total      | Unrealized |
|                                                           | Fair Value              | Losses     | Fair Value              | Losses     | Fair Value | Losses     |
| Temporarily impaired securities:                          |                         |            |                         |            |            |            |
| Federal agency securities                                 | \$10                    | \$—        | \$—                     | \$—        | \$10       | \$—        |
| U.S. states and political subdivisions                    | 1                       | —          | 28                      | 4          | 29         | 4          |
| MBS - agency                                              | 224                     | —          | 1                       | —          | 225        | —          |
| CDO/CLO securities                                        | 50                      | —          | —                       | —          | 50         | —          |
| ABS                                                       | —                       | —          | 11                      | 5          | 11         | 5          |
| Total temporarily impaired securities                     | 285                     | —          | 40                      | 9          | 325        | 9          |
| Other-than-temporarily impaired securities <sup>1</sup> : |                         |            |                         |            |            |            |
| MBS - private                                             | 15                      | 1          | 206                     | 30         | 221        | 31         |
| ABS                                                       | 1                       | —          | 3                       | 2          | 4          | 2          |
| Total other-than-temporarily impaired securities          | 16                      | 1          | 209                     | 32         | 225        | 33         |
| Total impaired securities                                 | \$301                   | \$1        | \$249                   | \$41       | \$550      | \$42       |

<sup>1</sup>Includes OTTI securities for which credit losses have been recorded in earnings in current or prior periods.

At September 30, 2012 and December 31, 2011, unrealized losses on securities that have been in a temporarily impaired position for longer than twelve months include municipal ARS and one ABS collateralized by 2004 vintage home equity loans. The municipal securities are backed by investment grade rated obligors; however, the fair value of these securities continues to be impacted by the lack of a functioning ARS market and the extension of time for expected refinance and repayment. No credit loss is expected on these securities. The ABS is also highly-rated,

continues to receive timely principal and interest payments, and is evaluated quarterly for credit impairment. Cash flow analysis shows that the underlying collateral can withstand highly stressed loss assumptions without incurring a credit loss.

The portion of unrealized losses on securities that have been other-than-temporarily impaired that relates to factors other than credit are recorded in AOCI. Losses related to credit impairment on these securities is determined through estimated cash flow analyses and have been recorded in earnings in current or prior periods. The unrealized OTTI loss relating to ABS at September 30, 2012 is related to three securities within the portfolio that are 2003 and 2004 vintage home equity issuances. The expectation of cash flows for the previously impaired ABS securities has improved since the credit-related impairment was recognized, and as a result, the amount of expected credit losses was reduced, and the expected increase in cash flows is being accreted into earnings as a yield adjustment over the remaining life of the securities.

## Notes to Consolidated Financial Statements (Unaudited), continued

## Realized Gains and Losses and Other-than-Temporarily Impaired Securities

|                       | Three Months Ended<br>September 30 |                  | Nine Months Ended<br>September 30 |                    |
|-----------------------|------------------------------------|------------------|-----------------------------------|--------------------|
| (Dollars in millions) | 2012                               | 2011             | 2012                              | 2011               |
| Gross realized gains  | \$1,944                            | <sup>1</sup> \$4 | \$1,980                           | <sup>1</sup> \$180 |
| Gross realized losses | —                                  | (2)              | —                                 | (80)               |
| OTTI                  | (3)                                | —                | (7)                               | (2)                |
| Net securities gains  | \$1,941                            | \$2              | \$1,973                           | \$98               |

<sup>1</sup>Included in these amounts are \$305 million in losses recognized during the three and nine months ended September 30, 2012 related to the termination of the Agreements that hedge the Coke common stock.

The securities that gave rise to credit impairments recognized during the three and nine months ended September 30, 2012, as shown in the table below, consisted of private MBS with a fair value of \$217 million. The securities impacted by credit impairment during the nine months ended September 30, 2011, consisted of private MBS with a fair value of \$176 million at September 30, 2011. Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include default rates, prepayment rates, and loss severities. For the majority of the securities that the Company has reviewed for credit-related OTTI, credit information is available and modeled for the collateral underlying each security. As part of that analysis, the model incorporates loan level information such as loan to collateral values, FICO scores, and home price appreciation/depreciation data specific to the geography of the loan. These inputs are updated on a regular basis to ensure the most current credit and other assumptions are utilized in the analysis. If, based on this analysis, the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities. During the three and nine months ended September 30, 2012 and the nine months ended September 30, 2011, all OTTI recognized in earnings on private MBS have underlying collateral of residential mortgage loans securitized in 2007. There were no OTTI losses recognized during the three months ended September 30, 2011.

The Company has not purchased any new private MBS during the nine months ended September 30, 2012, and continues to reduce existing exposure primarily through paydowns. In certain instances, the amount of impairment losses recognized in earnings includes credit losses on debt securities that exceeds the total impairment, and as a result, the securities may have unrealized gains in AOCI relating to factors other than credit.

|                                                    | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |         |
|----------------------------------------------------|------------------------------------|---------|-----------------------------------|---------|
| (Dollars in millions)                              | 2012                               | 2011    | 2012                              | 2011    |
|                                                    | MBS -                              | MBS -   | MBS -                             | MBS -   |
|                                                    | Private                            | Private | Private                           | Private |
| OTTI <sup>1</sup>                                  | \$3                                | \$—     | \$7                               | \$3     |
| Portion of losses recognized in OCI (before taxes) | —                                  | —       | —                                 | (1)     |
| Net impairment losses recognized in earnings       | \$3                                | \$—     | \$7                               | \$2     |

<sup>1</sup> The initial OTTI amount represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, amount includes additional declines in the fair value subsequent to the previously recorded OTTI, if applicable, until such time the security is no longer in an unrealized loss position, plus any additional credit losses taken through earnings that exceeds the total impairment.



Notes to Consolidated Financial Statements (Unaudited), continued

The following is a rollforward of credit losses recognized in earnings for the three and nine months ended September 30, 2012 and 2011, related to securities for which the Company does not intend to sell and it is not more-likely-than-not that the Company will be required to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value when there has been a decline in expected cash flows:

| (Dollars in millions)                                                                 | Three Months Ended<br>September 30 |      | Nine Months Ended<br>September 30 |      |
|---------------------------------------------------------------------------------------|------------------------------------|------|-----------------------------------|------|
|                                                                                       | 2012                               | 2011 | 2012                              | 2011 |
| Balance, beginning of period                                                          | \$28                               | \$21 | \$25                              | \$20 |
| Additions:                                                                            |                                    |      |                                   |      |
| OTTI credit losses on previously impaired securities                                  | 3                                  | —    | 7                                 | 2    |
| Reductions:                                                                           |                                    |      |                                   |      |
| Increases in expected cash flows recognized over the remaining life of the securities | —                                  | —    | (1 )                              | (1 ) |
| Balance, end of period                                                                | \$31                               | \$21 | \$31                              | \$21 |

The following table presents a summary of the significant inputs used in determining the measurement of credit losses recognized in earnings for private MBS for the nine months ended September 30:

|                 | 2012     | 2011     |
|-----------------|----------|----------|
| Default rate    | 2 - 9%   | 4 - 8%   |
| Prepayment rate | 7 - 21%  | 12 - 22% |
| Loss severity   | 40 - 56% | 39 - 44% |

Assumption ranges represent the lowest and highest lifetime average estimates of each security for which credit losses were recognized in earnings. During the first nine months of 2012, there was improvement in the default estimates for certain credit impaired bonds; however, slower prepayment speeds and higher severity rates resulted in the recognition of additional impairment.

## Notes to Consolidated Financial Statements (Unaudited), continued

## NOTE 3 - LOANS

## Composition of Loan Portfolio

The composition of the Company's loan portfolio is shown in the following table:

| (Dollars in millions)                              | September 30,<br>2012 | December 31,<br>2011 |
|----------------------------------------------------|-----------------------|----------------------|
| Commercial loans:                                  |                       |                      |
| Commercial & industrial                            | \$52,407              | \$49,538             |
| Commercial real estate                             | 4,491                 | 5,094                |
| Commercial construction                            | 808                   | 1,240                |
| Total commercial loans                             | 57,706                | 55,872               |
| Residential loans:                                 |                       |                      |
| Residential mortgages - guaranteed                 | 4,823                 | 6,672                |
| Residential mortgages - nonguaranteed <sup>1</sup> | 23,925                | 23,243               |
| Home equity products                               | 15,019                | 15,765               |
| Residential construction                           | 805                   | 980                  |
| Total residential loans                            | 44,572                | 46,660               |
| Consumer loans:                                    |                       |                      |
| Guaranteed student loans                           | 5,823                 | 7,199                |
| Other direct                                       | 2,341                 | 2,059                |
| Indirect                                           | 10,781                | 10,165               |
| Credit cards                                       | 594                   | 540                  |
| Total consumer loans                               | 19,539                | 19,963               |
| LHFI                                               | \$121,817             | \$122,495            |
| LHFS                                               | \$5,205               | \$2,353              |

<sup>1</sup>Includes \$390 million and \$431 million of loans carried at fair value at September 30, 2012 and December 31, 2011, respectively.

During the three months ended September 30, 2012 and 2011, the Company transferred \$2.0 billion and \$459 million in LHFI to LHFS, and \$3 million and \$7 million in LHFS to LHFI, respectively. Additionally, during the three months ended September 30, 2012 and 2011, the Company sold \$649 million and \$202 million in loans and leases for gains of \$9 million and \$10 million, respectively.

During the nine months ended September 30, 2012 and 2011, the Company transferred \$3.1 billion and \$657 million in LHFI to LHFS, and \$34 million and \$53 million in LHFS to LHFI, respectively. Additionally, during the nine months ended September 30, 2012 and 2011, the Company sold \$2.0 billion and \$479 million in loans and leases for gains of \$62 million and \$20 million, respectively. There were no other material sales of LHFI during the three and nine months ended September 30, 2012 and 2011.

## Credit Quality Evaluation

The Company evaluates the credit quality of its loan portfolio by employing a dual internal risk rating system, which assigns both PD and LGD ratings to derive expected losses. Assignment of PD and LGD ratings are predicated upon numerous factors, including consumer credit risk scores, rating agency information, borrower/guarantor financial capacity, LTV ratios, collateral type, debt service coverage ratios, collection experience, other internal metrics/analysis, and qualitative assessments.

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is the individual loan's risk assessment expressed according to regulatory agency classification, Pass or Criticized. The Company's risk rating system is granular, with multiple risk ratings in both the Pass and Criticized categories. Pass ratings reflect relatively low expectations of default. The granularity in Pass ratings assists in the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. Criticized assets have a higher PD. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets

Especially Mentioned (or Special Mention), Adversely Classified, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the

Notes to Consolidated Financial Statements (Unaudited), continued

Criticized categories is between Accruing Criticized (which includes Special Mention and a portion of Adversely Classified) and Nonaccruing Criticized (which includes a portion of Adversely Classified, Doubtful, and Loss). This distinction identifies those relatively higher risk loans for which there is a basis to believe that the Company will collect all amounts due from those where full collection is less certain.

Risk ratings are refreshed at least annually, or more frequently as appropriate, based upon considerations such as market conditions, loan characteristics, and portfolio trends. Additionally, management routinely reviews portfolio risk ratings, trends, and concentrations to support risk identification and mitigation activities.

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company's formal underwriting process, and refreshed FICO scores are obtained by the Company at least quarterly. In response to updates in the industry-wide FICO scoring model and to enhance the Company's ability to manage credit risk, the Company updated its FICO scoring model to this updated version for the Home Equity, Indirect, and Other Direct portfolios in the first quarter of 2012. This change was the primary reason for the changes in the percentage of balances across the FICO score ranges noted below. There was no impact to the Company's financial position or results of operations as a result of updating the FICO scoring model.

For government guaranteed student loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At September 30, 2012 and December 31, 2011, 86% and 79%, respectively, of the guaranteed student loan portfolio was current with respect to payments. Loss exposure to the Company on these loans is mitigated by the government guarantee.

## Notes to Consolidated Financial Statements (Unaudited), continued

LHFI by credit quality indicator are shown in the tables below:

| Commercial Loans               |                                       |                   |                        |                   |                          |                   |
|--------------------------------|---------------------------------------|-------------------|------------------------|-------------------|--------------------------|-------------------|
| (Dollars in millions)          | Commercial & industrial               |                   | Commercial real estate |                   | Commercial construction  |                   |
|                                | September 30, 2012                    | December 31, 2011 | September 30, 2012     | December 31, 2011 | September 30, 2012       | December 31, 2011 |
| Credit rating:                 |                                       |                   |                        |                   |                          |                   |
| Pass                           | \$50,496                              | \$47,683          | \$3,788                | \$3,845           | \$524                    | \$581             |
| Criticized accruing            | 1,623                                 | 1,507             | 584                    | 961               | 209                      | 369               |
| Criticized nonaccruing         | 288                                   | 348               | 119                    | 288               | 75                       | 290               |
| Total                          | \$52,407                              | \$49,538          | \$4,491                | \$5,094           | \$808                    | \$1,240           |
| Residential Loans <sup>2</sup> |                                       |                   |                        |                   |                          |                   |
| (Dollars in millions)          | Residential mortgages - nonguaranteed |                   | Home equity products   |                   | Residential construction |                   |
|                                | September 30, 2012                    | December 31, 2011 | September 30, 2012     | December 31, 2011 | September 30, 2012       | December 31, 2011 |
| Current FICO score range:      |                                       |                   |                        |                   |                          |                   |
| 700 and above                  | \$17,550                              | \$16,139          | \$11,454               | \$11,084          | \$594                    | \$661             |
| 620 - 699                      | 4,071                                 | 4,132             | 2,339                  | 2,903             | 137                      | 202               |
| Below 620 <sup>1</sup>         | 2,304                                 | 2,972             | 1,226                  | 1,778             | 74                       | 117               |
| Total                          | \$23,925                              | \$23,243          | \$15,019               | \$15,765          | \$805                    | \$980             |
| Consumer Loans <sup>3</sup>    |                                       |                   |                        |                   |                          |                   |
| (Dollars in millions)          | Other direct                          |                   | Indirect               |                   | Credit cards             |                   |
|                                | September 30, 2012                    | December 31, 2011 | September 30, 2012     | December 31, 2011 | September 30, 2012       | December 31, 2011 |
| Current FICO score range:      |                                       |                   |                        |                   |                          |                   |
| 700 and above                  | \$1,930                               | \$1,614           | \$8,156                | \$7,397           | \$404                    | \$347             |
| 620 - 699                      | 343                                   | 359               | 1,992                  | 1,990             | 145                      | 142               |
| Below 620 <sup>1</sup>         | 68                                    | 86                | 633                    | 778               | 45                       | 51                |
| Total                          | \$2,341                               | \$2,059           | \$10,781               | \$10,165          | \$594                    | \$540             |

<sup>1</sup>For substantially all loans with refreshed FICO scores below 620, the borrower's FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.

<sup>2</sup>Excludes \$4.8 billion and \$6.7 billion at September 30, 2012 and December 31, 2011, respectively, of guaranteed residential loans. At both September 30, 2012 and December 31, 2011, the majority of these loans had FICO scores of 700 and above.

<sup>3</sup>Excludes \$5.8 billion and \$7.2 billion at September 30, 2012 and December 31, 2011, respectively, of guaranteed student loans.

## Notes to Consolidated Financial Statements (Unaudited), continued

The payment status for the LHFI portfolio is shown in the tables below:

| (Dollars in millions)                              | As of September 30, 2012 |                              |                            |                          | Total     |
|----------------------------------------------------|--------------------------|------------------------------|----------------------------|--------------------------|-----------|
|                                                    | Accruing Current         | Accruing 30-89 Days Past Due | Accruing 90+ Days Past Due | Nonaccruing <sup>2</sup> |           |
| Commercial loans:                                  |                          |                              |                            |                          |           |
| Commercial & industrial                            | \$52,009                 | \$82                         | \$28                       | \$288                    | \$52,407  |
| Commercial real estate                             | 4,351                    | 20                           | 1                          | 119                      | 4,491     |
| Commercial construction                            | 733                      | —                            | —                          | 75                       | 808       |
| Total commercial loans                             | 57,093                   | 102                          | 29                         | 482                      | 57,706    |
| Residential loans:                                 |                          |                              |                            |                          |           |
| Residential mortgages - guaranteed                 | 3,934                    | 151                          | 738                        | —                        | 4,823     |
| Residential mortgages - nonguaranteed <sup>1</sup> | 22,866                   | 251                          | 22                         | 786                      | 23,925    |
| Home equity products                               | 14,566                   | 143                          | —                          | 310                      | 15,019    |
| Residential construction                           | 664                      | 12                           | —                          | 129                      | 805       |
| Total residential loans                            | 42,030                   | 557                          | 760                        | 1,225                    | 44,572    |
| Consumer loans:                                    |                          |                              |                            |                          |           |
| Guaranteed student loans                           | 5,001                    | 520                          | 302                        | —                        | 5,823     |
| Other direct                                       | 2,313                    | 17                           | 5                          | 6                        | 2,341     |
| Indirect                                           | 10,704                   | 57                           | 2                          | 18                       | 10,781    |
| Credit cards                                       | 582                      | 6                            | 6                          | —                        | 594       |
| Total consumer loans                               | 18,600                   | 600                          | 315                        | 24                       | 19,539    |
| Total LHFI                                         | \$117,723                | \$1,259                      | \$1,104                    | \$1,731                  | \$121,817 |

<sup>1</sup>Includes \$390 million of loans carried at fair value, the majority of which were accruing current.

<sup>2</sup>Total nonaccruing loans past due 90 days or more totaled \$1.3 billion. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs.

| (Dollars in millions)                              | As of December 31, 2011 |                              |                            |                          | Total     |
|----------------------------------------------------|-------------------------|------------------------------|----------------------------|--------------------------|-----------|
|                                                    | Accruing Current        | Accruing 30-89 Days Past Due | Accruing 90+ Days Past Due | Nonaccruing <sup>2</sup> |           |
| Commercial loans:                                  |                         |                              |                            |                          |           |
| Commercial & industrial                            | \$49,098                | \$80                         | \$12                       | \$348                    | \$49,538  |
| Commercial real estate                             | 4,797                   | 9                            | —                          | 288                      | 5,094     |
| Commercial construction                            | 943                     | 7                            | —                          | 290                      | 1,240     |
| Total commercial loans                             | 54,838                  | 96                           | 12                         | 926                      | 55,872    |
| Residential loans:                                 |                         |                              |                            |                          |           |
| Residential mortgages - guaranteed                 | 5,394                   | 176                          | 1,102                      | —                        | 6,672     |
| Residential mortgages - nonguaranteed <sup>1</sup> | 21,501                  | 324                          | 26                         | 1,392                    | 23,243    |
| Home equity products                               | 15,223                  | 204                          | —                          | 338                      | 15,765    |
| Residential construction                           | 737                     | 22                           | 1                          | 220                      | 980       |
| Total residential loans                            | 42,855                  | 726                          | 1,129                      | 1,950                    | 46,660    |
| Consumer loans:                                    |                         |                              |                            |                          |           |
| Guaranteed student loans                           | 5,690                   | 640                          | 869                        | —                        | 7,199     |
| Other direct                                       | 2,032                   | 14                           | 6                          | 7                        | 2,059     |
| Indirect                                           | 10,074                  | 66                           | 5                          | 20                       | 10,165    |
| Credit cards                                       | 526                     | 7                            | 7                          | —                        | 540       |
| Total consumer loans                               | 18,322                  | 727                          | 887                        | 27                       | 19,963    |
| Total LHFI                                         | \$116,015               | \$1,549                      | \$2,028                    | \$2,903                  | \$122,495 |

<sup>1</sup>Includes \$431 million of loans carried at fair value, the majority of which were accruing current.

<sup>2</sup>Total nonaccruing loans past due 90 days or more totaled \$2.3 billion. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs.

## Notes to Consolidated Financial Statements (Unaudited), continued

## Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Commercial nonaccrual loans greater than \$3 million and certain consumer, residential, and commercial loans whose terms have been modified in a TDR are individually evaluated for impairment. Smaller-balance homogeneous loans that are collectively evaluated for impairment are not included in the following tables. Additionally, the tables below exclude guaranteed student loans and guaranteed residential mortgages for which there was nominal risk of principal loss.

| (Dollars in millions)                              | As of September 30, 2012       |                                |                      | Three Months Ended<br>September 30, 2012 |                                               | Nine Months Ended<br>September 30, 2012 |                                               |
|----------------------------------------------------|--------------------------------|--------------------------------|----------------------|------------------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------------|
|                                                    | Unpaid<br>Principal<br>Balance | Amortized<br>Cost <sup>1</sup> | Related<br>Allowance | Average<br>Amortized<br>Cost             | Interest<br>Income<br>Recognized <sup>2</sup> | Average<br>Amortized<br>Cost            | Interest<br>Income<br>Recognized <sup>2</sup> |
| Impaired loans with no related allowance recorded: |                                |                                |                      |                                          |                                               |                                         |                                               |
| Commercial loans:                                  |                                |                                |                      |                                          |                                               |                                         |                                               |
| Commercial & industrial                            | \$102                          | \$66                           | \$—                  | \$97                                     | \$—                                           | \$107                                   | \$1                                           |
| Commercial real estate                             | 47                             | 28                             | —                    | 52                                       | 2                                             | 62                                      | 3                                             |
| Commercial construction                            | 59                             | 55                             | —                    | 64                                       | —                                             | 71                                      | 1                                             |
| Total commercial loans                             | 208                            | 149                            | —                    | 213                                      | 2                                             | 240                                     | 5                                             |
| Impaired loans with an allowance recorded:         |                                |                                |                      |                                          |                                               |                                         |                                               |
| Commercial loans:                                  |                                |                                |                      |                                          |                                               |                                         |                                               |
| Commercial & industrial                            | 46                             | 44                             | 6                    | 44                                       | —                                             | 42                                      | 1                                             |
| Commercial real estate                             | 26                             | 19                             | —                    | 21                                       | —                                             | 22                                      | —                                             |
| Commercial construction                            | 8                              | 6                              | 2                    | 6                                        | —                                             | 6                                       | —                                             |
| Total commercial loans                             | 80                             | 69                             | 8                    | 71                                       | —                                             | 70                                      | 1                                             |
| Residential loans:                                 |                                |                                |                      |                                          |                                               |                                         |                                               |
| Residential mortgages - nonguaranteed              | 2,326                          | 2,050                          | 215                  | 2,053                                    | 20                                            | 2,059                                   | 62                                            |
| Home equity products                               | 574                            | 534                            | 88                   | 536                                      | 7                                             | 541                                     | 20                                            |
| Residential construction                           | 272                            | 226                            | 25                   | 227                                      | 3                                             | 234                                     | 8                                             |
| Total residential loans                            | 3,172                          | 2,810                          | 328                  | 2,816                                    | 30                                            | 2,834                                   | 90                                            |
| Consumer loans:                                    |                                |                                |                      |                                          |                                               |                                         |                                               |
| Other direct                                       | 13                             | 13                             | 1                    | 13                                       | —                                             | 13                                      | —                                             |
| Indirect                                           | 30                             | 30                             | 1                    | 31                                       | 1                                             | 32                                      | 2                                             |
| Credit cards                                       | 23                             | 23                             | 6                    | 23                                       | —                                             | 25                                      | 1                                             |
| Total consumer loans                               | 66                             | 66                             | 8                    | 67                                       | 1                                             | 70                                      | 3                                             |
| Total impaired loans                               | \$3,526                        | \$3,094                        | \$344                | \$3,167                                  | \$33                                          | \$3,214                                 | \$99                                          |

<sup>1</sup>Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce the net book balance.

<sup>2</sup>Of the interest income recognized for the three and nine months ended September 30, 2012, cash basis interest income was \$6 million and \$15 million, respectively.

## Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                              | As of December 31, 2011  |                             |                   | Year Ended December 31, 2011 |                                         |
|----------------------------------------------------|--------------------------|-----------------------------|-------------------|------------------------------|-----------------------------------------|
|                                                    | Unpaid Principal Balance | Amortized Cost <sup>1</sup> | Related Allowance | Average Amortized Cost       | Interest Income Recognized <sup>2</sup> |
| Impaired loans with no related allowance recorded: |                          |                             |                   |                              |                                         |
| Commercial loans:                                  |                          |                             |                   |                              |                                         |
| Commercial & industrial                            | \$93                     | \$73                        | \$—               | \$109                        | \$3                                     |
| Commercial real estate                             | 58                       | 50                          | —                 | 56                           | 1                                       |
| Commercial construction                            | 45                       | 40                          | —                 | 47                           | 1                                       |
| Total commercial loans                             | 196                      | 163                         | —                 | 212                          | 5                                       |
| Impaired loans with an allowance recorded:         |                          |                             |                   |                              |                                         |
| Commercial loans:                                  |                          |                             |                   |                              |                                         |
| Commercial & industrial                            | 76                       | 67                          | 9                 | 68                           | 1                                       |
| Commercial real estate                             | 111                      | 82                          | 15                | 103                          | 2                                       |
| Commercial construction                            | 132                      | 100                         | 10                | 121                          | 2                                       |
| Total commercial loans                             | 319                      | 249                         | 34                | 292                          | 5                                       |
| Residential loans:                                 |                          |                             |                   |                              |                                         |
| Residential mortgages - nonguaranteed              | 2,797                    | 2,405                       | 293               | 2,451                        | 88                                      |
| Home equity products                               | 553                      | 515                         | 86                | 528                          | 23                                      |
| Residential construction                           | 246                      | 221                         | 26                | 229                          | 8                                       |
| Total residential loans                            | 3,596                    | 3,141                       | 405               | 3,208                        | 119                                     |
| Consumer loans:                                    |                          |                             |                   |                              |                                         |
| Other direct                                       | 12                       | 12                          | 1                 | 13                           | 1                                       |
| Credit cards                                       | 27                       | 27                          | 8                 | 26                           | 2                                       |
| Total consumer loans                               | 39                       | 39                          | 9                 | 39                           | 3                                       |
| Total impaired loans                               | \$4,150                  | \$3,592                     | \$448             | \$3,751                      | \$132                                   |

<sup>1</sup>Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce net book balance.

<sup>2</sup>Of the interest income recognized for the year ended December 31, 2011, cash basis interest income was \$25 million.

Included in the impaired loan balances above were \$2.6 billion of accruing TDRs at both September 30, 2012 and December 31, 2011, of which 95% and 93% were current, respectively. For further information regarding the Company's loan impairment policy, see Note 1, "Significant Accounting Policies," to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

## Notes to Consolidated Financial Statements (Unaudited), continued

Nonperforming assets are shown in the following table:

| (Dollars in millions)                 | September 30,<br>2012 | December 31,<br>2011 |
|---------------------------------------|-----------------------|----------------------|
| Nonaccrual/NPLs:                      |                       |                      |
| Commercial loans:                     |                       |                      |
| Commercial & industrial               | \$288                 | \$348                |
| Commercial real estate                | 119                   | 288                  |
| Commercial construction               | 75                    | 290                  |
| Residential loans:                    |                       |                      |
| Residential mortgages - nonguaranteed | 786                   | 1,392                |
| Home equity products                  | 310                   | 338                  |
| Residential construction              | 129                   | 220                  |
| Consumer loans:                       |                       |                      |
| Other direct                          | 6                     | 7                    |
| Indirect                              | 18                    | 20                   |
| Total nonaccrual/NPLs                 | 1,731                 | 2,903                |
| OREO <sup>1</sup>                     | 304                   | 479                  |
| Other repossessed assets              | 10                    | 10                   |
| Nonperforming LHFS                    | 40                    | —                    |
| Total nonperforming assets            | \$2,085               | \$3,392              |

<sup>1</sup>Does not include foreclosed real estate related to loans insured by the FHA or the VA. Proceeds due from the FHA and the VA are recorded as a receivable in other assets until the funds are received and the property is conveyed. The receivable amount related to proceeds due from the FHA or the VA totaled \$143 million and \$132 million at September 30, 2012 and December 31, 2011, respectively.

#### Restructured Loans

TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession, in an attempt to protect as much of its investment as possible, to the borrower that it would not otherwise consider. When loans are modified under the terms of a TDR, the Company typically offers the borrower an extension of the loan maturity date and/or a reduction in the original contractual interest rate. In certain limited situations, the Company may offer to restructure a loan in a manner that ultimately results in the forgiveness of contractually specified principal balances.

At September 30, 2012 and December 31, 2011, the Company had \$3 million and \$5 million, respectively, in commitments to lend additional funds to debtors owing receivables whose terms have been modified in a TDR.

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Notes to Consolidated Financial Statements (Unaudited), continued

The number and amortized cost of loans modified under the terms of a TDR during the three and nine months ended September 30, 2012 and 2011, by type of modification, are shown in the following tables:

Three Months Ended September 30, 2012<sup>1</sup>

| (Dollars in millions)                 | Number of<br>Loans<br>Modified | Principal<br>Forgiveness <sup>2</sup> | Rate<br>Modification <sup>3</sup> | Term<br>Extension<br>and/or Other<br>Concessions | Total |
|---------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------|-------|
| Commercial loans:                     |                                |                                       |                                   |                                                  |       |
| Commercial & industrial               | 87                             | \$4                                   | \$1                               | \$6                                              | \$11  |
| Commercial real estate                | 4                              | 5                                     | —                                 | —                                                | 5     |
| Commercial construction               | 3                              | 1                                     | —                                 | 2                                                | 3     |
| Residential loans:                    |                                |                                       |                                   |                                                  |       |
| Residential mortgages - nonguaranteed | 279                            | —                                     | 20                                | 1                                                | 21    |
| Home equity products                  | 431                            | —                                     | 26                                | 4                                                | 30    |
| Residential construction              | 165                            | —                                     | —                                 | 25                                               | 25    |
| Consumer loans:                       |                                |                                       |                                   |                                                  |       |
| Other direct                          | 42                             | —                                     | —                                 | 1                                                | 1     |
| Indirect                              | 1,000                          | —                                     | —                                 | 17                                               | 17    |
| Credit cards                          | 281                            | —                                     | 2                                 | —                                                | 2     |
| Total TDRs                            | 2,292                          | \$10                                  | \$49                              | \$56                                             | \$115 |

Nine Months Ended September 30, 2012<sup>1</sup>

| (Dollars in millions)                 | Number of<br>Loans<br>Modified | Principal<br>Forgiveness <sup>2</sup> | Rate<br>Modification <sup>3</sup> | Term<br>Extension<br>and/or Other<br>Concessions | Total |
|---------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------|-------|
| Commercial loans:                     |                                |                                       |                                   |                                                  |       |
| Commercial & industrial               | 270                            | \$4                                   | \$3                               | \$21                                             | \$28  |
| Commercial real estate                | 27                             | 17                                    | 7                                 | 2                                                | 26    |
| Commercial construction               | 15                             | 3                                     | —                                 | 13                                               | 16    |
| Residential loans:                    |                                |                                       |                                   |                                                  |       |
| Residential mortgages - nonguaranteed | 703                            | —                                     | 61                                | 2                                                | 63    |
| Home equity products                  | 1,272                          | —                                     | 90                                | 7                                                | 97    |
| Residential construction              | 340                            | —                                     | 1                                 | 54                                               | 55    |
| Consumer loans:                       |                                |                                       |                                   |                                                  |       |
| Other direct                          | 81                             | —                                     | —                                 | 2                                                | 2     |
| Indirect                              | 1,795                          | —                                     | —                                 | 31                                               | 31    |
| Credit cards                          | 1,144                          | —                                     | 7                                 | —                                                | 7     |
| Total TDRs                            | 5,647                          | \$24                                  | \$169                             | \$132                                            | \$325 |

<sup>1</sup>Includes loans modified under the terms of a TDR that were charged-off during the period.

<sup>2</sup>Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness was during the three and nine months ended September 30, 2012 was \$1 million and \$2 million, respectively.

<sup>3</sup>Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and nine months ended September 30, 2012.



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Notes to Consolidated Financial Statements (Unaudited), continued

| Three Months Ended September 30, 2011 <sup>1</sup> |                                |                                       |                                   |                                                  |       |
|----------------------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------|-------|
| (Dollars in millions)                              | Number of<br>Loans<br>Modified | Principal<br>Forgiveness <sup>2</sup> | Rate<br>Modification <sup>3</sup> | Term<br>Extension<br>and/or Other<br>Concessions | Total |
| Commercial loans:                                  |                                |                                       |                                   |                                                  |       |
| Commercial & industrial                            | 208                            | \$—                                   | \$21                              | \$30                                             | \$51  |
| Commercial real estate                             | 9                              | 2                                     | 8                                 | 6                                                | 16    |
| Commercial construction                            | 11                             | 9                                     | 6                                 | 50                                               | 65    |
| Residential loans:                                 |                                |                                       |                                   |                                                  |       |
| Residential mortgages - nonguaranteed              | 304                            | —                                     | 57                                | 4                                                | 61    |
| Home equity products                               | 569                            | —                                     | 38                                | 4                                                | 42    |
| Residential construction                           | 266                            | —                                     | 5                                 | 29                                               | 34    |
| Consumer loans:                                    |                                |                                       |                                   |                                                  |       |
| Other direct                                       | 7                              | —                                     | —                                 | 1                                                | 1     |
| Credit cards                                       | 716                            | —                                     | 4                                 | —                                                | 4     |
| Total TDRs                                         | 2,090                          | \$11                                  | \$139                             | \$124                                            | \$274 |

| Nine Months Ended September 30, 2011 <sup>1</sup> |                                |                                       |                                   |                                                  |       |
|---------------------------------------------------|--------------------------------|---------------------------------------|-----------------------------------|--------------------------------------------------|-------|
| (Dollars in millions)                             | Number of<br>Loans<br>Modified | Principal<br>Forgiveness <sup>2</sup> | Rate<br>Modification <sup>3</sup> | Term<br>Extension<br>and/or Other<br>Concessions | Total |
| Commercial loans:                                 |                                |                                       |                                   |                                                  |       |
| Commercial & industrial                           | 391                            | \$27                                  | \$43                              | \$39                                             | \$109 |
| Commercial real estate                            | 34                             | 24                                    | 24                                | 21                                               | 69    |
| Commercial construction                           | 93                             | 36                                    | 8                                 | 91                                               | 135   |
| Residential loans:                                |                                |                                       |                                   |                                                  |       |
| Residential mortgages - nonguaranteed             | 832                            | —                                     | 199                               | 12                                               | 211   |
| Home equity products                              | 1,312                          | —                                     | 100                               | 4                                                | 104   |
| Residential construction                          | 316                            | —                                     | 15                                | 30                                               | 45    |
| Consumer loans:                                   |                                |                                       |                                   |                                                  |       |
| Other direct                                      | 58                             | —                                     | —                                 | 3                                                | 3     |
| Credit cards                                      | 1,941                          | —                                     | 11                                | —                                                | 11    |
| Total TDRs                                        | 4,977                          | \$87                                  | \$400                             | \$200                                            | \$687 |

<sup>1</sup>Includes loans modified under the terms of a TDR that were charged-off during the period.

<sup>2</sup>Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during the three and nine months ended September 30, 2011 was \$3 million and \$12 million, respectively.

<sup>3</sup>Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and nine months ended September 30, 2011.

The preceding tables represent loans modified under the terms of a TDR during the three and nine months ended September 30, 2012 and 2011, whereas the following tables represent loans modified as a TDR over longer time

periods; as specified in the tables below, that became 90 days or more delinquent during the three and nine months ended September 30, 2012 and 2011, respectively.

## Notes to Consolidated Financial Statements (Unaudited), continued

|                          | Three Months Ended September 30,<br>2012 <sup>1</sup> |                | Nine Months Ended September 30,<br>2012 <sup>1</sup> |                |
|--------------------------|-------------------------------------------------------|----------------|------------------------------------------------------|----------------|
| (Dollars in millions)    | Number of Loans                                       | Amortized Cost | Number of Loans                                      | Amortized Cost |
| Commercial loans:        |                                                       |                |                                                      |                |
| Commercial & industrial  | 38                                                    | \$1            | 63                                                   | \$4            |
| Commercial real estate   | —                                                     | —              | 4                                                    | 4              |
| Commercial construction  | 2                                                     | —              | 9                                                    | 6              |
| Residential loans:       |                                                       |                |                                                      |                |
| Residential mortgages    | 31                                                    | 2              | 87                                                   | 16             |
| Home equity products     | 32                                                    | 2              | 113                                                  | 9              |
| Residential construction | 6                                                     | 1              | 23                                                   | 3              |
| Consumer loans:          |                                                       |                |                                                      |                |
| Other direct             | 2                                                     | —              | 4                                                    | —              |
| Indirect                 | 15                                                    | —              | 15                                                   | —              |
| Credit cards             | 33                                                    | —              | 168                                                  | 1              |
| Total TDRs               | 159                                                   | \$6            | 486                                                  | \$43           |

<sup>1</sup>For the three and nine months ended September 30, 2012, this represents defaults on loans that were first modified between the periods July 1, 2011 and September 30, 2012, and January 1, 2011 and September 30, 2012, respectively, including loans modified under the terms of a TDR that were charged-off during the periods.

|                          | Three Months Ended September 30,<br>2011 <sup>1</sup> |                | Nine Months Ended September 30,<br>2011 <sup>1</sup> |                |
|--------------------------|-------------------------------------------------------|----------------|------------------------------------------------------|----------------|
| (Dollars in millions)    | Number of Loans                                       | Amortized Cost | Number of Loans                                      | Amortized Cost |
| Commercial loans:        |                                                       |                |                                                      |                |
| Commercial & industrial  | 23                                                    | \$6            | 43                                                   | \$8            |
| Commercial real estate   | 5                                                     | 21             | 11                                                   | 21             |
| Commercial construction  | 1                                                     | —              | 15                                                   | 24             |
| Residential loans:       |                                                       |                |                                                      |                |
| Residential mortgages    | 60                                                    | 19             | 394                                                  | 95             |
| Home equity products     | 60                                                    | 6              | 171                                                  | 17             |
| Residential construction | 6                                                     | 1              | 29                                                   | 6              |
| Consumer loans:          |                                                       |                |                                                      |                |
| Other direct             | 2                                                     | —              | 9                                                    | —              |
| Credit cards             | 166                                                   | 1              | 321                                                  | 2              |
| Total TDRs               | 323                                                   | \$54           | 993                                                  | \$173          |

<sup>1</sup>For the three and nine months ended September 30, 2011, this represents defaults on loans that were first modified between the periods July 1, 2010 and September 30, 2011, and January 1, 2010 and September 30, 2011, respectively, including loans modified under the terms of a TDR that were charged-off during the periods.

The majority of loans that were modified and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of modification.

### Concentrations of Credit Risk

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the U.S. The Company engages in limited international banking activities. The Company's total cross-border outstanding loans were \$647 million and \$630 million at September 30, 2012 and December 31, 2011, respectively.



## Notes to Consolidated Financial Statements (Unaudited), continued

The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by residential real estate. At September 30, 2012, the Company owned \$44.6 billion in residential loans, representing 37% of total LHFI, and had \$12.0 billion in commitments to extend credit on home equity lines and \$9.6 billion in mortgage loan commitments. Of the residential loans owned at September 30, 2012, 11% were guaranteed by a federal agency or a GSE. At December 31, 2011, the Company owned \$46.7 billion in residential loans, representing 38% of total LHFI, and had \$12.7 billion in commitments to extend credit on home equity lines and \$7.8 billion in mortgage loan commitments. Of the residential loans owned at December 31, 2011, 14% were guaranteed by a federal agency or a GSE. Included in the residential mortgage portfolio were \$13.7 billion and \$14.7 billion of mortgage loans at September 30, 2012 and December 31, 2011, respectively, that included terms such as an interest only feature, a high LTV ratio, or a second lien position that may increase the Company's exposure to credit risk and result in a concentration of credit risk. Of these mortgage loans, \$8.1 billion and \$9.4 billion, respectively, were interest only loans, primarily with a ten year interest only period. Approximately \$1.6 billion of those interest only loans as of September 30, 2012, and \$1.9 billion as of December 31, 2011, were loans with no mortgage insurance and were either first liens with combined original LTV ratios in excess of 80% or were second liens. Additionally, the Company owned approximately \$5.7 billion and \$5.3 billion of amortizing loans with no mortgage insurance at September 30, 2012 and December 31, 2011, respectively, comprised of first liens with combined original LTV ratios in excess of 80% and second liens. Despite changes in underwriting guidelines that have curtailed the origination of high LTV loans, the balances of such loans with no mortgage insurance have increased as the benefits of mortgage insurance covering certain second lien mortgage loans have been exhausted, resulting in the loans effectively no longer being insured.

## NOTE 4 - ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. Activity in the allowance for credit losses is summarized in the table below:

|                                              | Three Months Ended September 30 |         | Nine Months Ended September 30 |         |
|----------------------------------------------|---------------------------------|---------|--------------------------------|---------|
| (Dollars in millions)                        | 2012                            | 2011    | 2012                           | 2011    |
| Balance at beginning of period               | \$2,350                         | \$2,795 | \$2,505                        | \$3,032 |
| Provision for loan losses                    | 450                             | 348     | 1,065                          | 1,194   |
| Provision/(benefit) for unfunded commitments | —                               | (1)     | 2                              | (8)     |
| Loan charge-offs                             | (585)                           | (536)   | (1,445)                        | (1,714) |
| Loan recoveries                              | 74                              | 44      | 162                            | 146     |
| Balance at end of period                     | \$2,289                         | \$2,650 | \$2,289                        | \$2,650 |
| Components:                                  |                                 |         |                                |         |
| ALLL                                         | \$2,239                         | \$2,600 |                                |         |
| Unfunded commitments reserve <sup>1</sup>    | 50                              | 50      |                                |         |
| Allowance for credit losses                  | \$2,289                         | \$2,650 |                                |         |

<sup>1</sup> The unfunded commitments reserve is recorded in other liabilities in the Consolidated Balance Sheets.

## Notes to Consolidated Financial Statements (Unaudited), continued

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

|                                | Three Months Ended September 30, 2012 |             |          |         |
|--------------------------------|---------------------------------------|-------------|----------|---------|
| (Dollars in millions)          | Commercial                            | Residential | Consumer | Total   |
| Balance at beginning of period | \$887                                 | \$1,277     | \$136    | \$2,300 |
| Provision for loan losses      | 127                                   | 300         | 23       | 450     |
| Loan charge-offs               | (126)                                 | (425)       | (34)     | (585)   |
| Loan recoveries                | 55                                    | 10          | 9        | 74      |
| Balance at end of period       | \$943                                 | \$1,162     | \$134    | \$2,239 |

|                                | Three Months Ended September 30, 2011 |             |          |         |
|--------------------------------|---------------------------------------|-------------|----------|---------|
| (Dollars in millions)          | Commercial                            | Residential | Consumer | Total   |
| Balance at beginning of period | \$1,200                               | \$1,395     | \$149    | \$2,744 |
| Provision for loan losses      | 86                                    | 236         | 26       | 348     |
| Loan charge-offs               | (214)                                 | (282)       | (40)     | (536)   |
| Loan recoveries                | 29                                    | 3           | 12       | 44      |
| Balance at end of period       | \$1,101                               | \$1,352     | \$147    | \$2,600 |

|                                | Nine Months Ended September 30, 2012 |             |          |         |
|--------------------------------|--------------------------------------|-------------|----------|---------|
| (Dollars in millions)          | Commercial                           | Residential | Consumer | Total   |
| Balance at beginning of period | \$964                                | \$1,354     | \$139    | \$2,457 |
| Provision for loan losses      | 214                                  | 788         | 63       | 1,065   |
| Loan charge-offs               | (346)                                | (1,001)     | (98)     | (1,445) |
| Loan recoveries                | 111                                  | 21          | 30       | 162     |
| Balance at end of period       | \$943                                | \$1,162     | \$134    | \$2,239 |

|                                | Nine Months Ended September 30, 2011 |             |          |         |
|--------------------------------|--------------------------------------|-------------|----------|---------|
| (Dollars in millions)          | Commercial                           | Residential | Consumer | Total   |
| Balance at beginning of period | \$1,303                              | \$1,498     | \$173    | \$2,974 |
| Provision for loan losses      | 318                                  | 810         | 66       | 1,194   |
| Loan charge-offs               | (619)                                | (970)       | (125)    | (1,714) |
| Loan recoveries                | 99                                   | 14          | 33       | 146     |
| Balance at end of period       | \$1,101                              | \$1,352     | \$147    | \$2,600 |

As discussed in Note 1, "Significant Accounting Policies," to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, the ALLL is composed of both specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for loans carried at fair value. Additionally, the Company records an immaterial allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss.

## Notes to Consolidated Financial Statements (Unaudited), continued

The Company's LHFI portfolio and related ALLL is shown in the tables below:

| (Dollars in millions)  | As of September 30, 2012 |                 |                |                 |                |                 |                |                 |
|------------------------|--------------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
|                        | Commercial               |                 | Residential    |                 | Consumer       |                 | Total          |                 |
|                        | Carrying Value           | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL |
| Individually evaluated | \$218                    | \$8             | \$2,810        | \$328           | \$66           | \$8             | \$3,094        | \$344           |
| Collectively evaluated | 57,488                   | 935             | 41,372         | 834             | 19,473         | 126             | 118,333        | 1,895           |
| Total evaluated        | 57,706                   | 943             | 44,182         | 1,162           | 19,539         | 134             | 121,427        | 2,239           |
| LHFI at fair value     | —                        | —               | 390            | —               | —              | —               | 390            | —               |
| Total LHFI             | \$57,706                 | \$943           | \$44,572       | \$1,162         | \$19,539       | \$134           | \$121,817      | \$2,239         |

| (Dollars in millions)  | As of December 31, 2011 |                 |                |                 |                |                 |                |                 |
|------------------------|-------------------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
|                        | Commercial              |                 | Residential    |                 | Consumer       |                 | Total          |                 |
|                        | Carrying Value          | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL |
| Individually evaluated | \$412                   | \$34            | \$3,141        | \$405           | \$39           | \$9             | \$3,592        | \$448           |
| Collectively evaluated | 55,458                  | 930             | 43,088         | 949             | 19,924         | 130             | 118,470        | 2,009           |
| Total evaluated        | 55,870                  | 964             | 46,229         | 1,354           | 19,963         | 139             | 122,062        | 2,457           |
| LHFI at fair value     | 2                       | —               | 431            | —               | —              | —               | 433            | —               |
| Total LHFI             | \$55,872                | \$964           | \$46,660       | \$1,354         | \$19,963       | \$139           | \$122,495      | \$2,457         |

## NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

As discussed in Note 14, "Business Segment Reporting," the Company reorganized its management reporting structure in the first quarter of 2012 and, accordingly, its segment reporting structure and goodwill reporting units. Goodwill was reassigned to the new reporting units using a relative fair value allocation. After the allocation, Consumer Banking and Private Wealth Management's goodwill balance was comprised of \$3.6 billion and \$335 million previously recorded within the Retail Banking and W&IM segments, respectively. Wholesale Banking's goodwill balance was comprised of \$1.3 billion, \$47 million, \$928 million, and \$180 million previously recorded within the Retail Banking, W&IM, Diversified Commercial Banking, and CIB segments, respectively.

Goodwill is required to be tested for impairment on an annual basis or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount or indicate that it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. The Company's reporting units with goodwill balances as of September 30, 2012 were Consumer Banking and Private Wealth Management, Wholesale Banking, GenSpring, and RidgeWorth Capital Management, both of which are part of the Wholesale Banking reportable segment. The Company performed a goodwill impairment analysis for all its reporting units as of September 30, 2012 and determined for the following reporting units that the fair value is in excess of the respective carrying value by the following percentages:

|                                                |      |
|------------------------------------------------|------|
| Consumer Banking and Private Wealth Management | 21%  |
| Wholesale Banking                              | 31%  |
| RidgeWorth Capital Management                  | 147% |

The fair value of the GenSpring reporting unit, however, was less than its carrying value. As a result, the Company performed the second step of the goodwill impairment evaluation, which involved calculating the implied fair value of the goodwill for the reporting unit. The implied fair value of the goodwill was also less than its carrying value;

therefore, the Company calculated the amount of impairment and for the three and nine months ended September 30, 2012, an impairment loss of \$7 million was recorded, which was the entire amount of goodwill recorded for the GenSpring reporting unit prior to the impairment evaluation.

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Notes to Consolidated Financial Statements (Unaudited), continued

The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, including the reallocation as noted above, are as follows:

| (Dollars in millions)                                                 | Retail<br>Banking | Diversified<br>Commercial<br>Banking | CIB    | W&IM   | Consumer<br>Banking and<br>Private<br>Wealth<br>Management | Wholesale<br>Banking | Total   |
|-----------------------------------------------------------------------|-------------------|--------------------------------------|--------|--------|------------------------------------------------------------|----------------------|---------|
| Balance, January 1, 2012                                              | \$4,854           | \$928                                | \$180  | \$382  | \$—                                                        | \$—                  | \$6,344 |
| Acquisition of assets of<br>FirstAgain, LLC                           | —                 | —                                    | —      | —      | 32                                                         | —                    | 32      |
| Intersegment transfers                                                | (4,854 )          | (928 )                               | (180 ) | (382 ) | 3,930                                                      | 2,414                | —       |
| Impairment of GenSpring                                               | —                 | —                                    | —      | —      | —                                                          | (7 )                 | (7 )    |
| Balance, September 30, 2012                                           | \$—               | \$—                                  | \$—    | \$—    | \$3,962                                                    | \$2,407              | \$6,369 |
| Balance, January 1, 2011                                              | \$4,854           | \$928                                | \$180  | \$361  | \$—                                                        | \$—                  | \$6,323 |
| Contingent consideration                                              | —                 | —                                    | —      | 1      | —                                                          | —                    | 1       |
| Acquisition of certain additional<br>assets of CSI Capital Management | —                 | —                                    | —      | 20     | —                                                          | —                    | 20      |
| Balance, September 30, 2011                                           | \$4,854           | \$928                                | \$180  | \$382  | \$—                                                        | \$—                  | \$6,344 |

Other Intangible Assets

Changes in the carrying amounts of other intangible assets for the nine months ended September 30 are as follows:

| (Dollars in millions)                                 | Core Deposit<br>Intangibles | MSRs -<br>Fair Value | Other | Total   |
|-------------------------------------------------------|-----------------------------|----------------------|-------|---------|
| Balance, January 1, 2012                              | \$38                        | \$921                | \$58  | \$1,017 |
| Amortization                                          | (17 )                       | —                    | (14 ) | (31 )   |
| MSRs originated                                       | —                           | 244                  | —     | 244     |
| Changes in fair value:                                |                             |                      |       |         |
| Due to changes in inputs and assumptions <sup>1</sup> | —                           | (157 )               | —     | (157 )  |
| Other changes in fair value <sup>2</sup>              | —                           | (173 )               | —     | (173 )  |
| Sale of MSRs                                          | —                           | (4 )                 | —     | (4 )    |
| Balance, September 30, 2012                           | \$21                        | \$831                | \$44  | \$896   |
| Balance, January 1, 2011                              | \$67                        | \$1,439              | \$65  | \$1,571 |
| Amortization                                          | (23 )                       | —                    | (11 ) | (34 )   |
| MSRs originated                                       | —                           | 183                  | —     | 183     |
| Changes in fair value:                                |                             |                      |       |         |
| Due to changes in inputs and assumptions <sup>1</sup> | —                           | (443 )               | —     | (443 )  |
| Other changes in fair value <sup>2</sup>              | —                           | (139 )               | —     | (139 )  |
| Sale of MSRs                                          | —                           | (7 )                 | —     | (7 )    |
| Other                                                 | —                           | —                    | 7     | 7       |
| Balance, September 30, 2011                           | \$44                        | \$1,033              | \$61  | \$1,138 |

<sup>1</sup> Primarily reflects changes in discount rates and prepayment speed assumptions, due to changes in interest rates.

<sup>2</sup> Represents changes due to the collection of expected cash flows, net of accretion, due to the passage of time.

Mortgage Servicing Rights

The Company retains MSRs from certain of its sales or securitizations of residential mortgage loans. MSRs on residential mortgage loans are the only servicing assets capitalized by the Company and are classified within intangible assets on the Company's Consolidated Balance Sheets.

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three months ended September 30, 2012 and 2011, was \$75 million and

## Notes to Consolidated Financial Statements (Unaudited), continued

\$91 million, respectively, and \$238 million and \$277 million for the nine months ended September 30, 2012 and 2011, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

As of September 30, 2012 and December 31, 2011, the total unpaid principal balance of mortgage loans serviced was \$149.7 billion and \$157.8 billion, respectively. Included in these amounts were \$115.8 billion and \$124.1 billion as of September 30, 2012 and December 31, 2011, respectively, of loans serviced for third parties. During the nine months ended September 30, 2012, the Company sold MSR on residential loans with an unpaid principal balance of \$1.7 billion. Because MSR are reported at fair value, the sale did not have a material impact on mortgage servicing related income.

At the end of each quarter, the Company determines the fair value of the MSR using a valuation model that calculates the present value of the estimated future net servicing income. The model incorporates a number of assumptions as MSR do not trade in an active and open market with readily observable prices. The Company determines fair value using market based prepayment rates, discount rates, and other assumptions that are compared to various sources of market data including independent third party valuations and industry surveys. Senior management and the valuation committee review all significant assumptions quarterly since many factors can affect the fair value of MSR. Changes in the valuation model inputs and assumptions are reported in the periods' results.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSR as of September 30, 2012 and December 31, 2011, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are shown in the table below. Substantially all of the decrease in fair value during the nine months ended September 30, 2012, was driven by a 7% decline in the principal balance of loans serviced for others and a decrease in prevailing interest rates during the nine months ended September 30, 2012.

| (Dollars in millions)                         | September 30, 2012 |   | December 31, 2011 |   |
|-----------------------------------------------|--------------------|---|-------------------|---|
| Fair value of retained MSR                    | \$831              |   | \$921             |   |
| Prepayment rate assumption (annual)           | 19                 | % | 20                | % |
| Decline in fair value from 10% adverse change | \$49               |   | \$52              |   |
| Decline in fair value from 20% adverse change | 92                 |   | 98                |   |
| Discount rate (annual)                        | 11                 | % | 11                | % |
| Decline in fair value from 10% adverse change | \$31               |   | \$33              |   |
| Decline in fair value from 20% adverse change | 60                 |   | 63                |   |
| Weighted-average life (in years)              | 4.3                |   | 4.3               |   |
| Weighted-average coupon                       | 4.9                | % | 5.2               | % |

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the sensitivities above do not include the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSR. See Note 10, "Derivative Financial Instruments," for further information regarding these hedging transactions.

## NOTE 6 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES

## Certain Transfers of Financial Assets and related Variable Interest Entities

As discussed in Note 11, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, the

Company has transferred loans and securities in sale or securitization transactions in which the Company has, or had, continuing involvement. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide.

When evaluating transfers and other transactions with VIEs for consolidation, the Company first determines if it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in the transferred assets and, at times, servicing rights and collateral manager fees. If the Company has a VI in the entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses

Notes to Consolidated Financial Statements (Unaudited), continued

or the right to receive benefits that could potentially be significant to the VIE to determine if the Company should consolidate the VIE.

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement and supplements Note 11, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Residential Mortgage Loans**

The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The Company sold residential mortgage loans to these entities, which resulted in pre-tax gains of \$306 million and \$167 million, including servicing rights for the three months ended September 30, 2012 and 2011, respectively and \$765 million and \$285 million for the nine months ended September 30, 2012 and 2011, respectively. These gains are included within mortgage production related income/(loss) in the Consolidated Statements of Income. These gains include the change in value of the loans as a result of changes in interest rates from the time the related IRLCs were issued to the borrowers but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 10, "Derivative Financial Instruments," for further discussion of the Company's hedging activities. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs, and those representations and warranties are discussed in Note 11, "Reinsurance Arrangements and Guarantees."

In a limited number of securitizations, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The received securities are carried at fair value as either trading assets or securities AFS. As of September 30, 2012 and December 31, 2011, the fair value of securities received totaled \$101 million and \$104 million, respectively, and were valued using a third party pricing service.

The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power. In almost all of its securitization transactions, the Company does not have power over the VIE as a result of these rights held by the master servicer. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. Total assets as of September 30, 2012 and December 31, 2011, of the unconsolidated trusts in which the Company has a VI are \$466 million and \$529 million, respectively. No events have occurred during the nine months ended September 30, 2012, that would change the Company's previous conclusion that it is not the primary beneficiary of any of these securitization entities.

The Company's maximum exposure to loss related to the unconsolidated VIEs in which it holds a VI is comprised of the loss of value of any interests it retains and any repurchase obligations it incurs as a result of a breach of its representations and warranties. Discussion of the Company's representations and warranties is included in Note 11, "Reinsurance Arrangements and Guarantees."

**Commercial and Corporate Loans**

The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the CLOs. In addition to retaining certain securities issued by the CLOs, the Company also acts as collateral manager for these CLOs. The securities retained by the Company and the fees received as collateral manager represent a VI in the CLOs, which are considered to be VIEs. The Company has determined that it is the primary beneficiary of, and thus, has consolidated one of these CLOs as it has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. The Company's

involvement with the CLO includes receiving fees for its duties as collateral manager, including eligibility for performance fees as well as ownership in one of the senior interests in the CLO and certain preference shares of the CLO. Substantially all of the assets and liabilities of the CLO are loans and issued debt, respectively. The loans are classified within LHFS at fair value and the debt is included within long-term debt at fair value on the Company's Consolidated Balance Sheets (see Note 12, "Fair Value Election and Measurement," for a discussion of the Company's methodologies for estimating the fair values of these financial instruments). At September 30, 2012, the Company's Consolidated Balance Sheets reflected \$328 million of loans held by the CLO and \$287 million of debt issued by the CLO. At December 31, 2011, the Company's Consolidated

## Notes to Consolidated Financial Statements (Unaudited), continued

Balance Sheets reflected \$315 million of loans held by the CLO and \$289 million of debt issued by the CLO. The Company is not obligated, contractually or otherwise, to provide financial support to this VIE nor has it previously provided support to this VIE. Further, creditors of the VIE have no recourse to the general credit of the Company, as the liabilities of the CLO are paid only to the extent of available cash flows from the CLO's assets.

For the remaining CLOs, which are also considered to be VIEs, the Company has determined that it is not the primary beneficiary as it does not have an obligation to absorb losses or the right to receive benefits from the entities that could potentially be significant to the VIE. The Company's preference share exposure was valued at \$2 million as of September 30, 2012 and December 31, 2011. The Company's only remaining involvement with these VIEs is through its collateral manager role. The Company receives fees for managing the assets of these vehicles; these fees are considered adequate compensation and are commensurate with the level of effort required to provide such services. The fees received by the Company from these entities are recorded as trust and investment management income in the Consolidated Statements of Income. Senior fees earned by the Company are generally not considered at risk; however, subordinate fees earned by the Company are subject to the availability of cash flows and to the priority of payments. At September 30, 2012 and December 31, 2011, the Company's Consolidated Balance Sheets did not include \$1.8 billion and \$2.0 billion, respectively, of estimated assets and \$1.7 billion and \$1.9 billion, respectively, of estimated liabilities. The Company is not obligated to provide any support to these entities, nor has it previously provided support to these entities. No events occurred during the nine months ended September 30, 2012, that would change the Company's previous conclusion that it is not the primary beneficiary of any of these securitization entities.

#### Student Loans

In 2006, the Company completed a securitization of government-guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the related residual interest in the SPE. The Company concluded that this securitization of government-guaranteed student loans (the "Student Loan entity") should be consolidated. At September 30, 2012 and December 31, 2011, the Company's Consolidated Balance Sheets reflected \$400 million and \$438 million, respectively, of assets held by the Student Loan entity and \$396 million and \$433 million, respectively, of debt issued by the Student Loan entity.

Payments from the assets in the SPE must first be used to settle the obligations of the SPE, with any remaining payments remitted to the Company as the owner of the residual interest. To the extent that losses occur on the SPE's assets, the SPE has recourse to the federal government as the guarantor up to a maximum guarantee amount of 97%. Losses in excess of the government guarantee reduce the amount of available cash payable to the Company as the owner of the residual interest. To the extent that losses result from a breach of the master servicer's servicing responsibilities, the SPE has recourse to the Company; the SPE may require the Company to repurchase the loan from the SPE at par value. If the breach was caused by the subservicer, the Company has recourse to seek reimbursement from the subservicer up to the guaranteed amount. The Company's maximum exposure to loss related to the SPE is represented by the potential losses resulting from a breach of servicing responsibilities. To date, all loss claims filed with the guarantor that have been denied due to servicing errors have either been cured or reimbursement has been provided to the Company by the subservicer.

#### CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The Company is not obligated to provide any support to these entities and its maximum exposure to loss at September 30, 2012 and December 31, 2011, includes current senior interests held in trading securities, which have fair values of \$47 million and \$43 million, respectively.

As discussed further in Note 12, "Fair Value Election and Measurement," the Company values these interests by constructing a pricing matrix of values based on a range of overcollateralization levels that are derived from discussions with the dealer community along with limited trade data. The price derived from the matrix is then adjusted for each security based on deal specific factors such as the percentage of collateral that is considered to be at heightened risk for future deferral or default, and collateral specific prepayment expectations, among other factors. The underlying collateral of the VIEs is highly concentrated, and as a result, the default or deferral of certain large exposures adversely impacts the value of the interests. From a sensitivity analysis of the overcollateralization, the Company estimates that if each of the VIEs in which the Company holds retained positions experienced one to three

additional large deferrals or defaults of an underlying collateral obligation, the fair value of the retained ARS would decline \$7 million to \$27 million, respectively.

At September 30, 2012 and December 31, 2011, the total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss were \$1.2 billion. The Company determined that it was not the primary beneficiary of any of these VIEs as the Company lacks the power to direct the significant activities of any of the VIEs. No events

## Notes to Consolidated Financial Statements (Unaudited), continued

occurred during the nine months ended September 30, 2012, that changed either the Company's sale accounting or the Company's conclusions that it is not the primary beneficiary of these VIEs.

The following tables present certain information related to the Company's asset transfers in which it has continuing economic involvement.

| (Dollars in millions)              | Three Months Ended<br>September 30 |      | Nine Months Ended<br>September 30 |      |
|------------------------------------|------------------------------------|------|-----------------------------------|------|
|                                    | 2012                               | 2011 | 2012                              | 2011 |
| Cash flows on interests held:      |                                    |      |                                   |      |
| Residential Mortgage Loans         | \$6                                | \$11 | \$21                              | \$39 |
| Commercial and Corporate Loans     | 1                                  | —    | 1                                 | 1    |
| CDO Securities                     | 1                                  | —    | 1                                 | 1    |
| Total cash flows on interests held | \$8                                | \$11 | \$23                              | \$41 |
| Servicing or management fees:      |                                    |      |                                   |      |
| Residential Mortgage Loans         | \$1                                | \$1  | \$2                               | \$3  |
| Commercial and Corporate Loans     | 2                                  | 2    | 7                                 | 8    |
| Total servicing or management fees | \$3                                | \$3  | \$9                               | \$11 |

Portfolio balances and delinquency balances based on accruing loans 90 days or more past due and all nonaccrual loans as of September 30, 2012 and December 31, 2011, and net charge-offs related to managed portfolio loans (both those that are owned or consolidated by the Company and those that have been transferred) for the three and nine months ended September 30, 2012 and 2011, are as follows:

| (Dollars in millions)         | Portfolio Balance <sup>1</sup> |                      | Past Due <sup>2</sup> |                      | Net Charge-offs                               |       |                                              |         |
|-------------------------------|--------------------------------|----------------------|-----------------------|----------------------|-----------------------------------------------|-------|----------------------------------------------|---------|
|                               | September<br>30, 2012          | December<br>31, 2011 | September<br>30, 2012 | December<br>31, 2011 | For the Three<br>Months Ended<br>September 30 |       | For the Nine<br>Months Ended<br>September 30 |         |
|                               |                                |                      |                       |                      | 2012                                          | 2011  | 2012                                         | 2011    |
| Type of loan:                 |                                |                      |                       |                      |                                               |       |                                              |         |
| Commercial                    | \$57,706                       | \$55,872             | \$511                 | \$938                | \$71                                          | \$185 | \$235                                        | \$520   |
| Residential                   | 44,572                         | 46,660               | 1,985                 | 3,079                | 415                                           | 279   | 980                                          | 956     |
| Consumer                      | 19,539                         | 19,963               | 339                   | 914                  | 25                                            | 28    | 68                                           | 92      |
| Total loan portfolio          | 121,817                        | 122,495              | 2,835                 | 4,931                | 511                                           | 492   | 1,283                                        | 1,568   |
| Managed securitized<br>loans: |                                |                      |                       |                      |                                               |       |                                              |         |
| Commercial                    | 1,785                          | 1,978                | 24                    | 43                   | —                                             | —     | —                                            | —       |
| Residential                   | 107,392                        | 114,342              | 2,419                 | <sup>3</sup> 3,310   | <sup>3</sup> 7                                | 12    | 23                                           | 39      |
| Total managed<br>loans        | \$230,994                      | \$238,815            | \$5,278               | \$8,284              | \$518                                         | \$504 | \$1,306                                      | \$1,607 |

<sup>1</sup>Excludes \$5,205 million and \$2,353 million of loans held for sale at September 30, 2012 and December 31, 2011, respectively.

<sup>2</sup>Excludes \$1,167 million and \$3 million of past due loans held for sale at September 30, 2012 and December 31, 2011, respectively.

<sup>3</sup>Excludes loans that have completed the foreclosure or short sale process (i.e., involuntary prepayments).

## Other Variable Interest Entities

In addition to the Company's involvement with certain VIEs related to transfers of financial assets, the Company also has involvement with VIEs from other business activities as further discussed in Note 11, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's Annual

Report on Form 10-K for the year ended December 31, 2011.

Three Pillars Funding, LLC

The Company previously assisted in providing liquidity to select corporate clients by directing them to a multi-seller CP conduit, Three Pillars. Three Pillars provided financing for direct purchases of financial assets originated and serviced by the Company's corporate clients by issuing CP. The Company was the primary beneficiary of Three Pillars.

## Notes to Consolidated Financial Statements (Unaudited), continued

In January 2012, the Company initiated the process of liquidating Three Pillars. As of June 30, 2012, all commitments and outstanding loans of Three Pillars have been transferred to the Bank. Three Pillars' CP has been repaid in full and the remaining other assets and liabilities are immaterial to the Company's Consolidated Balance Sheets.

**Total Return Swaps**

The Company has involvement with various VIEs related to its TRS business. At September 30, 2012 and December 31, 2011, the Company had \$1.9 billion and \$1.7 billion, respectively, in senior financing outstanding to VIEs, which were classified within trading assets on the Consolidated Balance Sheets and carried at fair value. These VIEs had entered into TRS contracts with the Company with outstanding notional amounts of \$1.9 billion and \$1.6 billion at September 30, 2012 and December 31, 2011, respectively, and the Company had entered into mirror TRS contracts with its third parties with the same outstanding notional amounts. At September 30, 2012, the fair values of these TRS assets and liabilities were \$56 million and \$52 million, respectively, and at December 31, 2011, the fair values of these TRS assets and liabilities were \$20 million and \$17 million, respectively, reflecting the pass-through nature of these structures. The notional amounts of the TRS contracts with the VIEs represent the Company's maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with the third parties. The Company has not provided any support to the VIE that it was not contractually obligated to for the nine months ended September 30, 2012 and 2011. For additional information on the Company's TRS with these VIEs, see Note 10, "Derivative Financial Instruments."

**Community Development Investments**

As part of its community reinvestment initiatives, the Company invests almost exclusively within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for various investments. The Company has determined that the related partnerships are VIEs. For partnerships where the Company operates strictly as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. As of September 30, 2012 and December 31, 2011, total assets, which consist primarily of fixed assets and cash attributable to the consolidated partnerships, were \$2 million and \$5 million, respectively, and total liabilities, excluding intercompany liabilities, were \$1 million. Security deposits from the tenants are recorded as liabilities on the Company's Consolidated Balance Sheets. The Company maintains separate cash accounts to fund these liabilities and these assets are considered restricted. The tenant liabilities and corresponding restricted cash assets were not material as of September 30, 2012 and December 31, 2011. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During the three and nine months ended September 30, 2012 and 2011, the Company did not provide any significant amount of funding as the general partner or to cover any deficits the partnerships may have generated.

For other partnerships, the Company acts only in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships. The general partner or an affiliate of the general partner provides guarantees to the limited partner, which protects the Company from losses attributable to operating deficits, construction deficits, and tax credit allocation deficits. Partnership assets of \$1.2 billion in these partnerships were not included in the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011. The limited partner interests had carrying values of \$190 million and \$194 million at September 30, 2012 and December 31, 2011, respectively, and are recorded in other assets in the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these limited partner investments totaled \$492 million and \$472 million at September 30, 2012 and December 31, 2011, respectively. The Company's maximum exposure to loss would be borne by the loss of the limited partnership equity investments along with \$253 million and \$249 million of loans, interest-rate swaps, or letters of credit issued by the Company to the limited partnerships at September 30, 2012 and December 31, 2011, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the partnerships upon the partnerships meeting certain conditions. When these conditions are met, the Company will invest these additional amounts in the partnerships.

Additionally, the Company invests in funds whose purpose is to invest in affordable housing developments as the limited partner investor. The Company owns minority and noncontrolling interests in these funds. As of September 30, 2012 and December 31, 2011, the Company's investment in these funds totaled \$65 million and \$68 million, respectively, and the Company's maximum exposure to loss on its equity investments, which is comprised of its investments in the funds plus any additional unfunded equity commitments, was \$103 million and \$108 million, respectively.

When the Company owns both the limited partner and general partner interests or acts as the indemnifying party, the Company consolidates the partnerships. As of September 30, 2012 and December 31, 2011, total assets, which consist

Notes to Consolidated Financial Statements (Unaudited), continued

primarily of fixed assets and cash, attributable to the consolidated non-VIE partnerships were \$240 million and \$360 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were \$105 million and \$107 million, respectively.

On September 6, 2012, the Company announced its intention to sell certain consolidated affordable housing properties. In connection with this action, the Company recorded valuation losses related to the planned sale of these properties in the amount of \$96 million in noninterest expense for the three and nine months ended September 30, 2012. Of the total valuation loss, \$3 million relates to properties held in the partnerships where the Company operates strictly as the general partner, and the remaining \$93 million relates to properties held in the partnerships where the Company owns both the limited partner and general partner interests or acts as the indemnifying party. See Note 12, "Fair Value Election and Measurement," for further discussion on the impact of impairment charges on affordable housing partnership investments.

Registered and Unregistered Funds Advised by RidgeWorth

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

The Company has concluded that some of the Funds are VIEs. However, the Company has concluded that it is not the primary beneficiary of these funds as the Company does not absorb a majority of the expected losses nor expected returns of the funds. The Company's exposure to loss is limited to the investment advisor and other administrative fees it earns and if applicable, any equity investments. The total unconsolidated assets of these funds as of September 30, 2012 and December 31, 2011, were \$0.4 billion and \$1.1 billion, respectively.

The Company does not have any contractual obligation to provide monetary support to any of the Funds. The Company did not provide any significant support, contractual or otherwise, to the Funds during the three and nine months ended September 30, 2012 and 2011.

## Notes to Consolidated Financial Statements (Unaudited), continued

## NOTE 7 – NET INCOME PER COMMON SHARE

Equivalent shares of 24 million and 27 million related to common stock options and common stock warrants outstanding as of September 30, 2012 and 2011, respectively, were excluded from the computations of diluted income per average common share because they would have been anti-dilutive.

A reconciliation of the difference between average basic common shares outstanding and average diluted common shares outstanding for the three and nine months ended September 30, 2012 and 2011, is included below.

Additionally, included below is a reconciliation of net income to net income available to common shareholders.

|                                                                                                 | Three Months Ended<br>September 30 |        | Nine Months Ended<br>September 30 |        |
|-------------------------------------------------------------------------------------------------|------------------------------------|--------|-----------------------------------|--------|
| (In millions, except per share data)                                                            | 2012                               | 2011   | 2012                              | 2011   |
| Net income                                                                                      | \$1,077                            | \$215  | \$1,602                           | \$573  |
| Preferred dividends                                                                             | (2)                                | (2)    | (8)                               | (5)    |
| Dividends and accretion of discount on preferred stock issued to the U.S. Treasury              | —                                  | —      | —                                 | (66)   |
| Accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury | —                                  | —      | —                                 | (74)   |
| Dividends and undistributed earnings allocated to unvested shares                               | (9)                                | (2)    | (13)                              | (4)    |
| Net income available to common shareholders                                                     | \$1,066                            | \$211  | \$1,581                           | \$424  |
| Average basic common shares                                                                     | 535                                | 532    | 534                               | 521    |
| Effect of dilutive securities:                                                                  |                                    |        |                                   |        |
| Stock options                                                                                   | 1                                  | 1      | 1                                 | 2      |
| Restricted stock                                                                                | 3                                  | 2      | 3                                 | 2      |
| Average diluted common shares                                                                   | 539                                | 535    | 538                               | 525    |
| Net income per average common share - diluted                                                   | \$1.98                             | \$0.39 | \$2.94                            | \$0.81 |
| Net income per average common share - basic                                                     | \$1.99                             | \$0.40 | \$2.96                            | \$0.81 |

## NOTE 8 - INCOME TAXES

The provision for income taxes was \$551 million and \$45 million for the three months ended September 30, 2012 and 2011, respectively, representing an effective tax rate of 34% and 17%, respectively. The provision for income taxes was \$710 million and \$136 million for the nine months ended September 30, 2012 and 2011, respectively, representing effective tax rates of 31% and 19%, respectively. The Company calculated income taxes for the three and nine months ended September 30, 2012 and 2011, based on actual year-to-date results. Interest and penalties related to tax matters are recorded as a component of the income tax provision.

## NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company sponsors various short-term incentive and LTI plans for eligible employees. The Company delivers LTIs through various incentive programs, including stock options, RSUs, restricted stock, and LTI cash. Awards under the LTI cash plan generally cliff vest over a period of three years from the date of the award and are paid in cash. AIP is the Company's short-term cash incentive plan for key employees that provides for potential annual cash awards based on the Company's performance and/or the achievement of business unit and individual performance objectives. For the three and nine months ended September 30, 2012, the Company's AIP plan includes a higher number of eligible employees that previously received compensation under other incentive plans. Compensation expense for the AIP and LTI cash plans was \$39 million and \$32 million for the three months ended September 30, 2012 and 2011, respectively, and \$116 million and \$92 million for the nine months ended September 30, 2012 and 2011, respectively.

Previously, TARP prohibited the payment of any bonus, incentive compensation or stock option award to the Company's five NEOs and certain other highly-compensated executives. As a result, beginning in January 2010, the Company paid additional base



## Notes to Consolidated Financial Statements (Unaudited), continued

salary amounts in the form of stock (salary shares) to the NEOs and some of the other employees who were among the next 20 most highly-compensated employees. The Company did this each pay period in the form of stock units under the SunTrust Banks, Inc. 2009 Stock Plan (the "2009 Stock Plan") until the Company repaid TARP. The Company settled the stock units in cash; for the 2010 salary shares, one half was settled on March 31, 2011, and one half was settled on March 31, 2012. The 2011 salary shares were settled on March 30, 2011, the date the Company repaid the U.S. government's TARP investment. The amount paid upon settlement of the stock units was equal to the value of a share of SunTrust common stock on the settlement date. The value of salary shares paid was \$4 million and \$7 million in 2012 and 2011, respectively.

## Stock-Based Compensation

The Company provides stock-based awards through the SunTrust Banks, Inc. 2009 Stock Plan (as amended and restated effective January 1, 2011) under which the Compensation Committee of the Board of Directors has the authority to grant stock options, restricted stock, and RSUs to key employees of the Company, of which some awards may have performance or other conditions such as vesting tied to the Company's total shareholder return relative to a peer group or vesting tied to the achievement of a ROA target.

The Company granted 1,687,968 shares of restricted stock and 1,690,515 RSUs during the first nine months of 2012. The weighted average grant-date fair value of these awards was \$21.84 and \$20.77 per share, respectively. The Company also granted 859,390 shares of stock options with a weighted average exercise price of \$21.92 during the nine months ended September 30, 2012. During the first nine months of 2011, the Company granted 1,375,406 shares of restricted stock and 344,590 RSUs. The weighted average grant-date fair value of these awards was \$31.44 and \$37.57 per share, respectively. The Company also granted 813,265 shares of stock options with a weighted average exercise price of \$29.70 during the nine months ended September 30, 2011. The fair value of stock options granted during the first nine months of 2012 and 2011 was \$7.83 and \$10.51 per share, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following assumptions:

|                                            | Nine Months Ended September 30 |         |   |
|--------------------------------------------|--------------------------------|---------|---|
|                                            | 2012                           | 2011    |   |
| Dividend yield                             | 0.91                           | % 0.75  | % |
| Expected stock price volatility            | 39.88                          | 34.87   |   |
| Risk-free interest rate (weighted average) | 1.07                           | 2.48    |   |
| Expected life of options                   | 6 years                        | 6 years |   |

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

| (Dollars in millions)                  | Three Months Ended September 30 |      | Nine Months Ended September 30 |      |
|----------------------------------------|---------------------------------|------|--------------------------------|------|
|                                        | 2012                            | 2011 | 2012                           | 2011 |
| Stock-based compensation expense:      |                                 |      |                                |      |
| Stock options                          | \$2                             | \$4  | \$9                            | \$11 |
| Restricted stock                       | 8                               | 8    | 22                             | 25   |
| RSUs                                   | 6                               | 1    | 24                             | 9    |
| Total stock-based compensation expense | \$16                            | \$13 | \$55                           | \$45 |

The recognized stock-based compensation tax benefit was \$6 million and \$5 million for the three months ended September 30, 2012 and 2011, respectively, and \$21 million and \$17 million for the nine months ended September 30, 2012 and 2011, respectively.

## Retirement Plans

Certain Retirement Plans were amended in 2011 to cease all future benefit accruals as disclosed in Note 16, "Employee Benefit Plans," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year

ended December 31, 2011. SunTrust did not contribute to either of its noncontributory qualified retirement plans ("Retirement Benefits Plans") in the first nine months of 2012. The expected long-term rate of return on plan assets for the Retirement Benefit Plans is 7.00% for 2012.

## Notes to Consolidated Financial Statements (Unaudited), continued

Anticipated employer contributions/benefit payments for 2012 are \$28 million for the SERP. For the three and nine months ended September 30, 2012, the actual contributions/benefit payments were \$23 million and \$25 million, respectively.

SunTrust contributed less than \$1 million to the Postretirement Welfare Plan during the three and nine months ended September 30, 2012. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2012 in the amount of \$3 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare Plan is 6.25% for 2012.

Components of net periodic (benefit)/cost were as follows:

| (Dollars in millions)                | Three Months Ended September 30<br>2012 |                                     | 2011                   |                                     |
|--------------------------------------|-----------------------------------------|-------------------------------------|------------------------|-------------------------------------|
|                                      | Retirement<br>Benefits                  | Other<br>Postretirement<br>Benefits | Retirement<br>Benefits | Other<br>Postretirement<br>Benefits |
| Service cost                         | \$—                                     | \$—                                 | \$18                   | \$—                                 |
| Interest cost                        | 30                                      | 2                                   | 32                     | 3                                   |
| Expected return on plan assets       | (43                                     | ) (2                                | (47                    | ) (2                                |
| Amortization of prior service credit | —                                       | —                                   | (5                     | ) —                                 |
| Recognized net actuarial loss        | 6                                       | —                                   | 11                     | —                                   |
| Settlement loss <sup>1</sup>         | 2                                       | —                                   | —                      | —                                   |
| Net periodic (benefit)/cost          | (\$5                                    | ) \$—                               | \$9                    | \$1                                 |

| (Dollars in millions)                | Nine Months Ended September 30<br>2012 |                                     | 2011                   |                                     |
|--------------------------------------|----------------------------------------|-------------------------------------|------------------------|-------------------------------------|
|                                      | Retirement<br>Benefits                 | Other<br>Postretirement<br>Benefits | Retirement<br>Benefits | Other<br>Postretirement<br>Benefits |
| Service cost                         | \$—                                    | \$—                                 | \$53                   | \$—                                 |
| Interest cost                        | 90                                     | 5                                   | 97                     | 7                                   |
| Expected return on plan assets       | (129                                   | ) (5                                | (142                   | ) (6                                |
| Amortization of prior service credit | —                                      | —                                   | (14                    | ) —                                 |
| Recognized net actuarial loss        | 18                                     | —                                   | 32                     | 1                                   |
| Settlement loss <sup>1</sup>         | 2                                      | —                                   | —                      | —                                   |
| Net periodic (benefit)/cost          | (\$19                                  | ) \$—                               | \$26                   | \$2                                 |

<sup>1</sup> Interim rereasurement was required on September 15, 2012 for the SunTrust SERP to reflect settlement accounting.

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into various derivative financial instruments, both in a dealer capacity to facilitate client transactions and as an end user as a risk management tool. When derivatives have been entered into with clients, the Company generally manages the risk associated with these derivatives within the framework of its VAR approach that monitors total exposure daily and seeks to manage the exposure on an overall basis. Derivatives are used as a risk management tool to hedge the Company's balance sheet exposure to changes in identified cash flow and fair value risks, either economically or in accordance with hedge accounting provisions. The Company's Corporate Treasury function is responsible for employing the various hedge accounting strategies to manage these objectives and all derivative activities are monitored by ALCO. The Company may also enter into derivatives, on a limited basis, in consideration of trading opportunities in the market. Additionally, as a normal part of its operations, the Company enters into IRLCs on mortgage loans that are accounted for as freestanding derivatives and has certain contracts containing embedded derivatives that are carried, in their entirety, at fair value. All freestanding derivatives and any embedded derivatives that the Company bifurcates from the host contracts are carried at fair value in the Consolidated

Balance Sheets in trading assets, other assets, trading liabilities, or other liabilities. The associated gains and losses are either recognized in AOCI, net of tax, or within the Consolidated Statements of Income depending upon the use and designation of the derivatives.

**Credit and Market Risk Associated with Derivatives**

Derivatives expose the Company to credit risk. The Company minimizes the credit risk of derivatives by entering into transactions with high credit-quality counterparties with defined exposure limits that are reviewed periodically by the Company's Credit Risk Management division. The Company's derivatives may also be governed by an ISDA master agreement, and depending on the nature of the derivative, bilateral collateral agreements are typically in place as well. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legally enforceable master netting agreement with

## Notes to Consolidated Financial Statements (Unaudited), continued

that counterparty, the Company considers its exposure to the counterparty to be the net market value of all positions with that counterparty adjusted for held collateral, if such net value is an asset to the Company. As of September 30, 2012, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$2.3 billion, representing the \$3.3 billion of derivative gains adjusted for collateral of \$1.0 billion that the Company holds in relation to these gain positions. As of December 31, 2011, net derivative asset positions to which the Company was exposed to risk of its counterparties were \$2.4 billion, representing \$3.6 billion of derivative gains, adjusted for collateral of \$1.2 billion that the Company holds in relation to these gain positions.

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

Derivative instruments are priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to recognize. Generally, the expected loss of each counterparty is estimated using the Company's internal risk rating system. The risk rating system utilizes counterparty-specific probabilities of default and LGD estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. Additionally, counterparty exposure is evaluated by offsetting positions that are subject to master netting arrangements, as well as considering the amount of marketable collateral securing the position. All counterparties are explicitly approved, as are defined exposure limits. Counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach is also used by the Company to estimate its own credit risk on derivative liability positions. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately \$31 million and \$36 million as of September 30, 2012 and December 31, 2011, respectively.

The majority of the Company's derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies, which are contained in industry standard master trading agreements, may be considered events of default. Should the Bank be in default under any of these provisions, the Bank's counterparties would be permitted under such master agreements to close-out net at amounts that would approximate the then-fair values of the derivatives and the offsetting of the amounts would produce a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. Additionally, certain of the Company's derivative liability positions, totaling \$1.4 billion in fair value at September 30, 2012 and \$1.2 billion at December 31, 2011, contain provisions conditioned on downgrades of the Bank's credit rating. These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral. Collateral posting requirements generally result from differences in the fair value of the net derivative liability compared to specified collateral thresholds at different ratings levels of the Bank, both of which are negotiated provisions within each CSA. At September 30, 2012, the Bank carried senior long-term debt ratings of A3/BBB+ from three of the major ratings agencies. At the current rating level, ATEs have been triggered for approximately \$10 million in fair value liabilities as of September 30, 2012. For illustrative purposes, if the Bank were downgraded to Baa3/BBB-, ATEs would be triggered in derivative liability contracts that had a total fair value of \$4 million at September 30, 2012; ATEs do not exist at lower ratings levels. At September 30, 2012, \$1.4 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted \$1.3 billion in collateral, primarily in the form of cash. If requested by the counterparty pursuant to the terms of the CSA, the Bank would be required to post estimated additional collateral against these contracts at September 30, 2012, of \$11 million if the Bank were downgraded to Baa3/BBB-, and any further downgrades to Ba1/BB+ or below would require the posting of an additional \$3 million. Such collateral posting amounts may be more or less than the Bank's estimates based on the specified terms of each

CSA as to the timing of a collateral calculation and whether the Bank and its counterparties differ on their estimates of the fair values of the derivatives or collateral.

#### Notional and Fair Value of Derivative Positions

The following tables present the Company's derivative positions at September 30, 2012 and December 31, 2011. The notional amounts in the tables are presented on a gross basis and have been classified within Asset Derivatives or Liability Derivatives based on the estimated fair value of the individual contract at September 30, 2012 and December 31, 2011. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements. For contracts constituting a combination of options that contain a written option and a purchased option (such as a collar), the notional amount of each option is presented separately, with the purchased notional amount generally being presented as an Asset Derivative and the written notional amount being presented as a Liability Derivative. The fair value of a combination

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Notes to Consolidated Financial Statements (Unaudited), continued

of options is generally presented as a single value with the purchased notional amount if the combined fair value is positive, and with the written notional amount, if the combined fair value is negative.

| As of September 30, 2012 <sup>1</sup>                                   |                              |                  |                 |                              |                  |                 |
|-------------------------------------------------------------------------|------------------------------|------------------|-----------------|------------------------------|------------------|-----------------|
| (Dollars in millions)                                                   | Asset Derivatives            |                  |                 | Liability Derivatives        |                  |                 |
|                                                                         | Balance Sheet Classification | Notional Amounts | Fair Value      | Balance Sheet Classification | Notional Amounts | Fair Value      |
| Derivatives designated in cash flow hedging relationships <sup>2</sup>  |                              |                  |                 |                              |                  |                 |
| Interest rate contracts hedging:                                        |                              |                  |                 |                              |                  |                 |
| Floating rate loans                                                     | Trading assets               | 17,350           | 885             | Trading liabilities          | —                | —               |
| Total                                                                   |                              | 17,350           | 885             |                              | —                | —               |
| Derivatives designated in fair value hedging relationships <sup>3</sup> |                              |                  |                 |                              |                  |                 |
| Interest rate contracts covering:                                       |                              |                  |                 |                              |                  |                 |
| Fixed rate debt                                                         | Trading assets               | 1,000            | 71              | Trading liabilities          | —                | —               |
| Total                                                                   |                              | 1,000            | 71              |                              | —                | —               |
| Derivatives not designated as hedging instruments <sup>4</sup>          |                              |                  |                 |                              |                  |                 |
| Interest rate contracts covering:                                       |                              |                  |                 |                              |                  |                 |
| Fixed rate debt                                                         | Trading assets               | 437              | 7               | Trading liabilities          | 60               | 11              |
| MSRs                                                                    | Other assets                 | 15,073           | 280             | Other liabilities            | 3,650            | 45              |
| LHFS, IRLCs, LHFI-FV                                                    | Other assets                 | 4,800            | <sup>5</sup> 52 | Other liabilities            | 7,977            | 166             |
| Trading activity <sup>6</sup>                                           | Trading assets               | 83,278           | 6,605           | Trading liabilities          | 91,420           | 6,300           |
| Foreign exchange rate contracts covering:                               |                              |                  |                 |                              |                  |                 |
| Commercial loans                                                        | Trading assets               | 34               | —               | Trading liabilities          | —                | —               |
| Trading activity                                                        | Trading assets               | 2,257            | 64              | Trading liabilities          | 2,394            | 61              |
| Credit contracts covering:                                              |                              |                  |                 |                              |                  |                 |
| Loans                                                                   | Other assets                 | 20               | —               | Other liabilities            | 356              | 5               |
| Trading activity                                                        | Trading assets               | 1,926            | <sup>7</sup> 58 | Trading liabilities          | 1,936            | <sup>7</sup> 53 |
| Equity contracts - Trading activity <sup>6</sup>                        | Trading assets               | 13,435           | 1,415           | Trading liabilities          | 19,735           | 1,581           |
| Other contracts:                                                        |                              |                  |                 |                              |                  |                 |
| IRLCs and other                                                         | Other assets                 | 7,003            | 198             | Other liabilities            | 134              | <sup>8</sup> 1  |
| Trading activity                                                        | Trading assets               | 302              | 29              | Trading liabilities          | 303              | 28              |
| Total                                                                   |                              | 128,565          | 8,708           |                              | 127,965          | 8,251           |
| Total derivatives                                                       |                              | \$146,915        | \$9,664         |                              | \$127,965        | \$8,251         |

<sup>1</sup> The Company offsets cash collateral paid to and received from derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements and meet the derivative offsetting requirements. The effects of offsetting on the Company's Consolidated Balance Sheets as of September 30, 2012, are presented in Note 12, "Fair Value Election and Measurement."

<sup>2</sup> See "Cash Flow Hedges" in this Note for further discussion.

<sup>3</sup> See "Fair Value Hedges" in this Note for further discussion.

<sup>4</sup> See "Economic Hedging and Trading Activities" in this Note for further discussion.

<sup>5</sup> Amount includes \$1.1 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.

<sup>6</sup> Amounts include \$16.6 billion and \$0.3 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative assets/liabilities associated with the one day lag are included in the fair value column of this table.

<sup>7</sup> Asset and liability amounts include \$2 million and \$4 million, respectively, of notional from purchased and written credit risk participation agreements, respectively, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.

<sup>8</sup> Includes a \$1 million derivative liability recognized in other liabilities in the Consolidated Balance Sheets, related to a notional amount of \$134 million. The notional amount is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009 as discussed in Note 11, "Reinsurance Arrangements and Guarantees."

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Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                                                   | As of December 31, 2011 <sup>1</sup> |                  |                    |                              |                  |                 |
|-------------------------------------------------------------------------|--------------------------------------|------------------|--------------------|------------------------------|------------------|-----------------|
|                                                                         | Asset Derivatives                    |                  |                    | Liability Derivatives        |                  |                 |
|                                                                         | Balance Sheet Classification         | Notional Amounts | Fair Value         | Balance Sheet Classification | Notional Amounts | Fair Value      |
| Derivatives designated in cash flow hedging relationships <sup>2</sup>  |                                      |                  |                    |                              |                  |                 |
| Equity contracts hedging:                                               |                                      |                  |                    |                              |                  |                 |
| Securities AFS                                                          | Trading assets                       | \$1,547          | \$—                | Trading liabilities          | \$1,547          | \$189           |
| Interest rate contracts hedging:                                        |                                      |                  |                    |                              |                  |                 |
| Floating rate loans                                                     | Trading assets                       | 14,850           | 1,057              | Trading liabilities          | —                | —               |
| Total                                                                   |                                      | 16,397           | 1,057              |                              | 1,547            | 189             |
| Derivatives designated in fair value hedging relationships <sup>3</sup> |                                      |                  |                    |                              |                  |                 |
| Interest rate contracts covering:                                       |                                      |                  |                    |                              |                  |                 |
| Securities AFS                                                          | Trading assets                       | —                | —                  | Trading liabilities          | 450              | 1               |
| Fixed rate debt                                                         | Trading assets                       | 1,000            | 56                 | Trading liabilities          | —                | —               |
| Total                                                                   |                                      | 1,000            | 56                 |                              | 450              | 1               |
| Derivatives not designated as hedging instruments <sup>4</sup>          |                                      |                  |                    |                              |                  |                 |
| Interest rate contracts covering:                                       |                                      |                  |                    |                              |                  |                 |
| Fixed rate debt                                                         | Trading assets                       | 437              | 13                 | Trading liabilities          | 60               | 9               |
| MSRs                                                                    | Other assets                         | 28,800           | 472                | Other liabilities            | 2,920            | 29              |
| LHFS, IRLCs, LHFI-FV                                                    | Other assets                         | 2,657            | 19                 | Other liabilities            | 6,228            | <sup>5</sup> 54 |
| Trading activity                                                        | Trading assets                       | 113,420          | <sup>6</sup> 6,226 | Trading liabilities          | 101,042          | 5,847           |
| Foreign exchange rate contracts covering:                               |                                      |                  |                    |                              |                  |                 |
| Foreign-denominated debt and commercial loans                           |                                      |                  |                    |                              |                  |                 |
|                                                                         | Trading assets                       | 33               | 1                  | Trading liabilities          | 460              | 129             |
| Trading activity                                                        | Trading assets                       | 2,532            | 127                | Trading liabilities          | 2,739            | 125             |
| Credit contracts covering:                                              |                                      |                  |                    |                              |                  |                 |
| Loans                                                                   | Trading assets                       | 45               | 1                  | Trading liabilities          | 308              | 3               |
| Trading activity                                                        | Trading assets                       | 1,841            | <sup>7</sup> 28    | Trading liabilities          | 1,809            | <sup>7</sup> 23 |
| Equity contracts - Trading activity                                     | Trading assets                       | 10,168           | <sup>6</sup> 1,013 | Trading liabilities          | 10,445           | 1,045           |
| Other contracts:                                                        |                                      |                  |                    |                              |                  |                 |
| IRLCs and other                                                         | Other assets                         | 4,909            | 84                 | Other liabilities            | 139              | <sup>8</sup> 22 |
| Trading activity                                                        | Trading assets                       | 207              | 23                 | Trading liabilities          | 203              | 23              |
| Total                                                                   |                                      | 165,049          | 8,007              |                              | 126,353          | 7,309           |
| Total derivatives                                                       |                                      | \$182,446        | \$9,120            |                              | \$128,350        | \$7,499         |

<sup>1</sup> The Company offsets cash collateral paid to and received from derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements and meet the derivative offsetting requirements. The effects of offsetting on the Company's Consolidated Balance Sheets as of December 31, 2011, are presented in Note 12, "Fair Value Election and Measurement."

<sup>2</sup> See "Cash Flow Hedges" in this Note for further discussion.

<sup>3</sup> See "Fair Value Hedges" in this Note for further discussion.

<sup>4</sup> See "Economic Hedging and Trading Activities" in this Note for further discussion.

<sup>5</sup> Amount includes \$1.2 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily, one day in arrears. The derivative liability associated with the one day lag is included in the fair value column of this table unless immaterial.

<sup>6</sup> Amounts include \$16.7 billion and \$0.6 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset associated with the one day lag is included in the fair value column of this table unless immaterial.

<sup>7</sup> Asset and liability amounts include \$2 million and \$6 million, respectively, of notional from purchased and written interest rate swap risk participation agreements, respectively, whose notional is calculated as the notional of the interest rate swap participated adjusted by the relevant RWA conversion factor.

<sup>8</sup> Includes a \$22 million derivative liability recognized in other liabilities in the Consolidated Balance Sheets, related to a notional amount of \$134 million. The notional amount is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009 as discussed in Note 11, "Reinsurance Arrangements and Guarantees."

**Impact of Derivatives on the Consolidated Statements of Income and Shareholders' Equity**

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2012 and 2011, are presented below. The impacts are segregated between those derivatives that are designated in hedging relationships and those that are used for economic hedging or trading purposes, with

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## Notes to Consolidated Financial Statements (Unaudited), continued

further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge, for both economic hedges and those instruments designated in formal, qualifying hedging relationships.

| (Dollars in millions)                                            | Three Months Ended September 30, 2012                                              |                                                                                      |                                                                                      | Nine Months Ended September 30, 2012                                               |                                                                                      |  |
|------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|--|
|                                                                  | Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion) | Classification of gain/(loss) reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain/(loss) reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion) | Amount of pre-tax gain/(loss) reclassified from AOCI into Income (Effective Portion) |  |
| Derivatives in cash flow hedging relationships                   |                                                                                    |                                                                                      |                                                                                      |                                                                                    |                                                                                      |  |
| Interest rate contracts hedging Floating rate loans <sup>1</sup> | 80                                                                                 | Interest and fees on loans                                                           | 84                                                                                   | 247                                                                                | 250                                                                                  |  |
| Equity contracts hedging Securities AFS <sup>2</sup>             | \$10                                                                               | Net securities gains                                                                 | (\$365 )                                                                             | (\$171 )                                                                           | (\$365 )                                                                             |  |
| Total                                                            | \$90                                                                               |                                                                                      | (\$281 )                                                                             | \$76                                                                               | (\$115 )                                                                             |  |

<sup>1</sup> During the three and nine months ended September 30, 2012, the Company also reclassified \$34 million and \$140 million, respectively, in pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated and are reclassified into earnings in the same period in which the forecasted transaction occurs.

<sup>2</sup> During both the three and nine months ended September 30, 2012, the Company also recognized \$60 million of pre-tax gains directly into net securities gains related to mark to market changes of the Coke hedging contracts when the cash flow hedging relationship failed to qualify for hedge accounting.

| (Dollars in millions)                                        | Three Months Ended September 30, 2012                     |                                                                    |                                                                            | Nine Months Ended September 30, 2012                      |                                                                    |                                                                            |
|--------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------|
|                                                              | Amount of gain/(loss) on Derivatives recognized in Income | Amount of gain/(loss) on related Hedged Items recognized in Income | Amount of gain/(loss) recognized in Income on Hedges (Ineffective Portion) | Amount of gain/(loss) on Derivatives recognized in Income | Amount of gain/(loss) on related Hedged Items recognized in Income | Amount of gain/(loss) recognized in Income on Hedges (Ineffective Portion) |
| Derivatives in fair value hedging relationships <sup>1</sup> |                                                           |                                                                    |                                                                            |                                                           |                                                                    |                                                                            |
| Interest rate contracts hedging Fixed rate debt              | \$3                                                       | (\$3 )                                                             | \$—                                                                        | \$10                                                      | (\$10 )                                                            | \$—                                                                        |
| Interest rate contracts hedging Securities AFS               | —                                                         | —                                                                  | —                                                                          | 1                                                         | (1 )                                                               | —                                                                          |
| Total                                                        | \$3                                                       | (\$3 )                                                             | \$—                                                                        | \$11                                                      | (\$11 )                                                            | \$—                                                                        |

<sup>1</sup> Amounts are recognized in trading income in the Consolidated Statements of Income.



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Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                             | Classification of gain/(loss) recognized in Income on Derivatives | Amount of gain/(loss) recognized in Income on Derivatives for the Three Months Ended September 30, 2012 | Amount of gain/(loss) recognized in Income on Derivatives for the Nine Months Ended September 30, 2012 |
|---------------------------------------------------|-------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Derivatives not designated as hedging instruments |                                                                   |                                                                                                         |                                                                                                        |
| Interest rate contracts covering:                 |                                                                   |                                                                                                         |                                                                                                        |
| Fixed rate debt                                   | Trading income                                                    | (\$1 )                                                                                                  | (\$2 )                                                                                                 |
| MSRs                                              | Mortgage servicing related income                                 | 101                                                                                                     | 297                                                                                                    |
| LHFS, IRLCs, LHFI-FV                              | Mortgage production related (loss)/income                         | (153 )                                                                                                  | (323 )                                                                                                 |
| Trading activity                                  | Trading income                                                    | 17                                                                                                      | 71                                                                                                     |
| Foreign exchange rate contracts covering:         |                                                                   |                                                                                                         |                                                                                                        |
| Commercial loans and foreign-denominated debt     | Trading income                                                    | —                                                                                                       | 129                                                                                                    |
| Trading activity                                  | Trading income                                                    | (2 )                                                                                                    | 13                                                                                                     |
| Credit contracts covering:                        |                                                                   |                                                                                                         |                                                                                                        |
| Loans                                             | Other income <sup>1</sup>                                         | (3 )                                                                                                    | (6 )                                                                                                   |
| Trading activity                                  | Trading income                                                    | 6                                                                                                       | 18                                                                                                     |
| Equity contracts - trading activity               | Trading income                                                    | (3 )                                                                                                    | 10                                                                                                     |
| Other contracts:                                  |                                                                   |                                                                                                         |                                                                                                        |
| IRLCs                                             | Mortgage production related (loss)/income                         | 332                                                                                                     | 774                                                                                                    |
| Total                                             |                                                                   | \$294                                                                                                   | \$981                                                                                                  |

<sup>1</sup> Includes losses of \$3 million that were recognized in trading income for the first six months of 2012.

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2011, are presented below:

| (Dollars in millions)                          | Three Months Ended September 30, 2011                                              |                                                                                      | Nine Months Ended September 30, 2011                                               |                                                                                      |
|------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
|                                                | Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion) | Classification of gain/(loss) reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion) | Amount of pre-tax gain/(loss) reclassified from AOCI into Income (Effective Portion) |
| Derivatives in cash flow hedging relationships |                                                                                    |                                                                                      |                                                                                    |                                                                                      |
| Equity contracts hedging                       | \$8                                                                                |                                                                                      |                                                                                    |                                                                                      |
| Securities AFS                                 |                                                                                    |                                                                                      | (\$2 )                                                                             | \$—                                                                                  |
| Interest rate contracts                        |                                                                                    |                                                                                      |                                                                                    |                                                                                      |
| hedging Floating rate loans <sup>1</sup>       | 438                                                                                | Interest and fees on loans                                                           | 103                                                                                | 673                                                                                  |
|                                                |                                                                                    |                                                                                      |                                                                                    | 321                                                                                  |
| Total                                          | \$446                                                                              |                                                                                      | \$103                                                                              | \$671                                                                                |
|                                                |                                                                                    |                                                                                      |                                                                                    | \$321                                                                                |

<sup>1</sup> During the three and nine months ended September 30, 2011, the Company also reclassified \$56 million and \$146 million in pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated and are reclassified into earnings in the same period in which the forecasted transaction occurs.

| (Dollars in millions)                                           | Three Months Ended September 30,<br>2011                                 |                                                                                      |                                                                                              | Nine Months Ended September 30,<br>2011                                  |                                                                                      |                                                                                              |
|-----------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
|                                                                 | Amount of<br>gain/(loss)<br>on<br>Derivatives<br>recognized<br>in Income | Amount of<br>gain/(loss)<br>on related<br>Hedged<br>Items<br>recognized<br>in Income | Amount of<br>gain/(loss)<br>recognized<br>in Income<br>on Hedges<br>(Ineffective<br>Portion) | Amount of<br>gain/(loss)<br>on<br>Derivatives<br>recognized<br>in Income | Amount of<br>gain/(loss)<br>on related<br>Hedged<br>Items<br>recognized<br>in Income | Amount of<br>gain/(loss)<br>recognized<br>in Income<br>on Hedges<br>(Ineffective<br>Portion) |
| Derivatives in fair value hedging relationships                 |                                                                          |                                                                                      |                                                                                              |                                                                          |                                                                                      |                                                                                              |
| Interest rate contracts hedging Fixed<br>rate debt <sup>1</sup> | \$35                                                                     | (\$35 )                                                                              | \$—                                                                                          | \$49                                                                     | (\$50 )                                                                              | (\$1 )                                                                                       |

<sup>1</sup> Amounts are recognized in trading income in the Consolidated Statements of Income.

## Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                             | Classification of gain/(loss)<br>recognized in Income on<br>Derivatives | Amount<br>of gain/(loss)<br>recognized in<br>Income<br>on Derivatives for<br>the<br>Three Months<br>Ended<br>September<br>30, 2011 | Amount<br>of gain/(loss)<br>recognized in<br>Income<br>on Derivatives<br>for the<br>Nine Months<br>Ended<br>September<br>30, 2011 |
|---------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Derivatives not designated as hedging instruments |                                                                         |                                                                                                                                    |                                                                                                                                   |
| Interest rate contracts covering:                 |                                                                         |                                                                                                                                    |                                                                                                                                   |
| Fixed rate debt                                   | Trading income                                                          | (\$5 )                                                                                                                             | (\$4 )                                                                                                                            |
| MSRs                                              | Mortgage servicing related income                                       | 397                                                                                                                                | 488                                                                                                                               |
| LHFS, IRLCs, LHFI-FV                              | Mortgage production related<br>(loss)/income                            | (130 )                                                                                                                             | (233 )                                                                                                                            |
| Trading activity                                  | Trading income                                                          | 41                                                                                                                                 | 78                                                                                                                                |
| Foreign exchange rate contracts covering:         |                                                                         |                                                                                                                                    |                                                                                                                                   |
| Commercial loans and<br>foreign-denominated debt  | Trading income                                                          | (96 )                                                                                                                              | 15                                                                                                                                |
| Trading activity                                  | Trading income                                                          | 20                                                                                                                                 | 13                                                                                                                                |
| Credit contracts covering:                        |                                                                         |                                                                                                                                    |                                                                                                                                   |
| Loans                                             | Trading income                                                          | —                                                                                                                                  | (1 )                                                                                                                              |
| Trading activity                                  | Trading income                                                          | 6                                                                                                                                  | 14                                                                                                                                |
| Equity contracts - trading activity               | Trading income                                                          | (9 )                                                                                                                               | (1 )                                                                                                                              |
| Other contracts:                                  |                                                                         |                                                                                                                                    |                                                                                                                                   |
| IRLCs                                             | Mortgage production related<br>(loss)/income                            | 145                                                                                                                                | 229                                                                                                                               |
| Total                                             |                                                                         | \$369                                                                                                                              | \$598                                                                                                                             |

## Credit Derivatives

As part of its trading businesses, the Company enters into contracts that are, in form or substance, written guarantees: specifically, CDS, swap participations, and TRS. The Company accounts for these contracts as derivatives and, accordingly, recognizes these contracts at fair value, with changes in fair value recognized in trading income in the Consolidated Statements of Income.

The Company writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either net cash settle or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. As of September 30, 2012, all written CDS contracts reference single name corporate credits or corporate credit indices. When the Company has written CDS, it has generally entered into offsetting CDS for the underlying reference asset, under which the Company paid a premium to its counterparty for protection against an event of default on the reference asset. The counterparties to these purchased CDS are generally of high creditworthiness and typically have ISDA master agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at September 30, 2012, the Company did not have any significant risk of making a non-recoverable payment on any written CDS. During 2012 and 2011, the only instances of default on written CDS

were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS. At September 30, 2012, the written CDS had remaining terms ranging from less than one year to three years. The maximum guarantees outstanding at September 30, 2012 and December 31, 2011, as measured by the gross notional amounts of written CDS, were \$62 million and \$167 million, respectively. At September 30, 2012 and December 31, 2011, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were \$70 million and \$175 million, respectively. The fair values of written CDS were \$2 million and \$4 million at September 30, 2012 and December 31, 2011, respectively, and the fair values of purchased CDS were \$1 million and \$6 million at September 30, 2012 and December 31, 2011, respectively.

The Company has also entered into TRS contracts on loans. The Company's TRS business consists of matched trades, such that when the Company pays depreciation on one TRS, it receives the same amount on the matched TRS. As such, the Company does not have any long or short exposure, other than credit risk of its counterparty which is mitigated through collateralization. The Company typically receives initial cash collateral from the counterparty upon entering into the TRS and is entitled to additional collateral if the fair value of the underlying reference assets deteriorates. At September 30, 2012 and December 31, 2011, there were \$1.9 billion and \$1.6 billion of outstanding and offsetting TRS notional balances, respectively. The fair values of the TRS derivative assets and liabilities at September 30, 2012, were \$56 million and \$52 million, respectively, and related collateral held at September 30, 2012, was \$272 million. The fair values of the TRS derivative assets and liabilities at December 31, 2011, were \$20 million and \$17 million, respectively, and related collateral held at December 31, 2011, was \$285 million.

## Notes to Consolidated Financial Statements (Unaudited), continued

The Company writes risk participations, which are credit derivatives, whereby the Company has guaranteed payment to a dealer counterparty in the event that the counterparty experiences a loss on a derivative, such as an interest rate swap, due to a failure to pay by the counterparty's customer (the "obligor") on that derivative. The Company monitors its payment risk on its risk participations by monitoring the creditworthiness of the obligors, which is based on the normal credit review process the Company would have performed had it entered into the derivatives directly with the obligors. The obligors are all corporations or partnerships. However, the Company continues to monitor the creditworthiness of its obligors and the likelihood of payment could change at any time due to unforeseen circumstances. To date, no material losses have been incurred related to the Company's written risk participations. At September 30, 2012, the remaining terms on these risk participations generally ranged from one year to eleven years with a weighted average on the maximum estimated exposure of 4.1 years. The Company's maximum estimated exposure to written risk participations, as measured by projecting a maximum value of the guaranteed derivative instruments based on interest rate curve simulations and assuming 100% default by all obligors on the maximum values, was approximately \$30 million and \$57 million at September 30, 2012 and December 31, 2011, respectively. The fair values of the written risk participations were not material at both September 30, 2012 and December 31, 2011. As part of its trading activities, the Company may enter into purchased risk participations, but such activity is not matched, as discussed herein related to CDS or TRS.

#### Cash Flow Hedges

The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company may employ various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management's assessment of future interest rates, as well as other factors. At September 30, 2012, the Company's outstanding interest rate hedging relationships include interest rate swaps that have been designated as cash flow hedges of probable forecasted transactions related to recognized floating rate loans.

Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. At September 30, 2012, the maximum range of hedge maturities for hedges of floating rate loans was one to five years, with the weighted average being 2.6 years. Ineffectiveness on these hedges was not material during the three and nine months ended September 30, 2012 and 2011. As of September 30, 2012, \$279 million, net of tax, of the deferred net gains on derivatives that are recognized in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income on these hedged items. The amount to be reclassified into income includes both active and terminated or de-designated cash flow hedges. The Company may choose to terminate or de-designate a hedging relationship in this program due to a change in the risk management objective for that specific hedge item, which may arise in conjunction with an overall balance sheet management strategy.

During the third quarter of 2008, the Company executed the Agreements on 60 million (shares are adjusted for Coke's two-for-one stock split, which was effective August 10, 2012 (the "Coke Stock Split")) common shares of Coke. A consolidated subsidiary of SunTrust owned 45.8 million Coke common shares, and a consolidated subsidiary of the Bank owned 14.2 million Coke common shares. These two subsidiaries entered into separate derivative contracts on their respective holdings of Coke common shares with the Coke Counterparty. Execution of the Agreements (including the pledges of the Coke common shares pursuant to the terms of the Agreements) did not constitute a sale of the Coke common shares under U.S. GAAP for several reasons, including that ownership of the common shares was not legally transferred to the Coke Counterparty. The Agreements were zero-cost equity collars at inception, which caused the Agreements to be derivatives in their entirety. The Company designated the Agreements as cash flow hedges of the Company's probable forecasted sales of its Coke common shares, which were expected to occur between 6.5 years and 7 years from the Agreements' effective date. The risk management objective was to hedge the cash flows on the forecasted sales of the Coke common shares at market values equal to or above the call strike price

and equal to or below the put strike price. Since the execution of the Agreements, the Company assessed hedge effectiveness on a quarterly basis and measured hedge ineffectiveness with the effective portion of the changes in fair value of the Agreements recognized in AOCI and any ineffective portions recognized in trading income. None of the components of the Agreements' fair values were excluded from the Company's assessments of hedge effectiveness. Ineffectiveness gains on the Agreements were recognized in trading income and related to changes in market dividends. The Company recognized no ineffectiveness gains and ineffectiveness gains of approximately \$1 million during the three months ended September 30, 2012 and 2011, respectively, and \$1 million during both the nine months ended September 30, 2012 and 2011, respectively.

During the three months ended September 30, 2012, the Company and the Coke Counterparty accelerated the termination of the Agreements, and the Company sold in the market or to the Coke Counterparty 59 million of its 60 million shares of Coke and contributed the remaining 1 million shares to the SunTrust Foundation for a net gain of \$1.9 billion, which is net of a \$305 million loss related to the derivative contract termination of the Agreements. Upon approval by the Board to terminate the Agreements and sell and donate the Coke shares, the Agreements no longer qualified as cash flow hedges. Thus, subsequent changes in value

Notes to Consolidated Financial Statements (Unaudited), continued

of the Agreements until termination totaled \$60 million and were recognized in net securities gains in the Consolidated Statements of Income. Amounts recognized in AOCI in the Consolidated Statements of Shareholders' Equity during the period the Agreements qualified as cash flow hedges totaled \$365 million in losses. These amounts remained in AOCI until the sale of the Coke shares, at which time, the amounts were reclassified to net securities gains in the Consolidated Statements of Income.

Fair Value Hedges

During 2011, the Company entered into interest rate swap agreements, as part of the Company's risk management objectives for hedging its exposure to changes in fair value due to changes in interest rates. These hedging arrangements converted Company-issued fixed rate senior long-term debt to floating rates. Consistent with this objective, the Company reflects the accrued contractual interest on the hedged item and the related swaps as part of current period interest. There were no components of derivative gains or losses excluded in the Company's assessment of hedge effectiveness related to the fair value hedges.

Economic Hedging and Trading Activities

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

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

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

The Company is subject to interest rate risk on its fixed rate debt. As market interest rates move, the fair value of the Company's debt is affected. To protect against this risk on certain debt issuances that the Company has elected to carry at fair value, the Company has entered into pay variable-receive fixed interest rate swaps that decrease in value in a rising rate environment and increase in value in a declining rate environment.

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

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

The Company enters into mortgage and interest rate derivatives, including forward contracts, futures, and option contracts to mitigate interest rate risk associated with IRLCs and mortgage LHFS. The Company also previously entered into derivative contracts on mortgage LHFH reported at fair value, but there were none outstanding during 2012.

The Company was exposed to foreign exchange rate risk associated with certain senior notes denominated in pound sterling. This risk was economically hedged with cross currency swaps, which received pound sterling and paid U.S. dollars. This debt and the related hedges matured in June 2012. Interest expense on the Consolidated Statements of Income reflects only the contractual interest rate on the debt based on the average spot exchange rate during the applicable period, while fair value changes on the derivatives and valuation adjustments on the debt are both recognized within trading income.

The Company enters into CDS to hedge credit risk associated with certain loans held within its Wholesale Banking segment. The Company accounts for these contracts as derivatives and, accordingly, recognizes these contracts at fair value, with changes in fair value recognized in other income in the Consolidated Statements of Income.

Trading activity, as illustrated in the tables within this footnote, primarily includes interest rate swaps, equity derivatives, CDS, futures, options and foreign currency contracts. These derivatives are entered into in a dealer

capacity to facilitate client transactions or are utilized as a risk management tool by the Company as an end user in certain macro-hedging strategies. The macro-hedging strategies are focused on managing the Company's overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

## Notes to Consolidated Financial Statements (Unaudited), continued

## NOTE 11 – REINSURANCE ARRANGEMENTS AND GUARANTEES

## Reinsurance

The Company provides mortgage reinsurance on certain mortgage loans through contracts with several primary mortgage insurance companies. Under these contracts, the Company provides aggregate excess loss coverage in a mezzanine layer in exchange for a portion of the pool's mortgage insurance premium. As of September 30, 2012 and December 31, 2011, approximately \$5.4 billion and \$8.0 billion, respectively, of mortgage loans were covered by such mortgage reinsurance contracts. The reinsurance contracts are intended to place limits on the Company's maximum exposure to losses by defining the loss amounts ceded to the Company as well as by establishing trust accounts for each contract. The trust accounts, which are comprised of funds contributed by the Company plus premiums earned under the reinsurance contracts, are maintained to fund claims made under the reinsurance contracts. If claims exceed funds held in the trust accounts, the Company does not intend to make additional contributions beyond future premiums earned under the existing contracts.

At September 30, 2012 and December 31, 2011, the total loss exposure ceded to the Company was approximately \$187 million and \$309 million, respectively; however, the maximum amount of loss exposure based on funds held in each separate trust account, including net premiums due to the trust accounts, was limited to \$7 million as of September 30, 2012. Of this amount, \$4 million of losses have been reserved for as of September 30, 2012, reducing the Company's net remaining loss exposure to \$3 million. The reinsurance reserve was \$38 million as of December 31, 2011. The decrease in the reserve balance was due to claim payments made to the primary mortgage insurance companies since December 31, 2011. The Company's evaluation of the required reserve amount includes an estimate of claims to be paid by the trust in relation to loans in default and an assessment of the sufficiency of future revenues, including premiums and investment income on funds held in the trusts, to cover future claims. Future reported losses may exceed \$3 million since future premium income will increase the amount of funds held in the trust; however, future cash losses, net of premium income, are not expected to exceed \$3 million. The amount of future premium income is limited to the population of loans currently outstanding since additional loans are not being added to the reinsurance contracts; future premium income could be further curtailed to the extent the Company agrees to relinquish control of other individual trusts to the mortgage insurance companies. Premium income, which totaled \$2 million and \$6 million, for the three months ended September 30, 2012 and 2011, respectively and \$10 million and \$20 million for the nine months ended September 30, 2012 and 2011, respectively, is reported as part of other noninterest income. The related provision for losses, which totaled \$2 million and \$5 million, for the three months ended September 30, 2012 and 2011, respectively, and \$11 million and \$18 million for the nine months ended September 30, 2012 and 2011, respectively, is reported as part of other noninterest expense.

## Guarantees

The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform and should certain triggering events occur, it also imposes an obligation to make future payments. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provisions of the Company's services. The following discussion appends and updates certain guarantees disclosed in Note 18, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives (see Note 10, "Derivative Financial Instruments").

## Letters of Credit

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

financial standby, performance standby, or commercial letters of credit.

As of September 30, 2012 and December 31, 2011, the maximum potential amount of the Company's obligation was \$4.1 billion and \$5.2 billion, respectively, for financial and performance standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year but may extend longer. If a letter of credit is drawn upon, the Company may seek recourse through the client's underlying obligation. If the client's line of credit is also in default, the Company may take possession of the collateral securing the line of credit, where applicable. The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with credit policies. Some standby letters of credit are designed to be drawn upon and others are drawn upon only under circumstances of dispute or

## Notes to Consolidated Financial Statements (Unaudited), continued

default in the underlying transaction to which the Company is not a party. In all cases, the Company holds the right to reimbursement from the applicant and may or may not also hold collateral to secure that right. An internal assessment of the PD and loss severity in the event of default is assessed consistent with the methodologies used for all commercial borrowers. The management of credit risk regarding letters of credit leverages the risk rating process to focus higher visibility on the higher risk and higher dollar letters of credit. The associated reserve is a component of the unfunded commitment reserve recorded in other liabilities in the Consolidated Balance Sheets and included in the allowance for credit losses as disclosed in Note 4, "Allowance for Credit Losses." Additionally, unearned fees relating to letters of credit are recorded in other liabilities. The net carrying amount of unearned fees was immaterial as of September 30, 2012 and December 31, 2011.

## Loan Sales

STM, a consolidated subsidiary of SunTrust, originates and purchases residential mortgage loans, a portion of which are sold to outside investors in the normal course of business, through a combination of whole loan sales to GSEs, Ginnie Mae, and non-agency investors. Prior to 2008, the Company also sold loans through a limited number of Company sponsored securitizations. When mortgage loans are sold, representations and warranties regarding certain attributes of the loans sold are made to these third party purchasers. Subsequent to the sale, if a material underwriting deficiency or documentation defect is discovered, STM may be obligated to repurchase the mortgage loan or to reimburse the investor for losses incurred (make whole requests) if such deficiency or defect cannot be cured by STM within the specified period following discovery. Defects in the securitization process or breaches of underwriting and servicing representations and warranties can result in loan repurchases, as well as adversely affect the valuation of MSRs, servicing advances, or other mortgage loan related exposures, such as OREO. These representations and warranties may extend through the life of the mortgage loan. STM's risk of loss under its representations and warranties is largely driven by borrower payment performance since investors will perform extensive reviews of delinquent loans as a means of mitigating losses.

Loan repurchase requests generally arise from loans sold during the period from January 1, 2005 to September 30, 2012, which totaled \$263.1 billion at the time of sale, consisting of \$203.0 billion and \$30.2 billion of agency and non-agency loans, respectively, as well as \$29.9 billion of loans sold to Ginnie Mae. The composition of the remaining outstanding balance by vintage and type of buyer as of September 30, 2012, is shown in the following table:

|                         | Remaining Outstanding Balance by Year of Sale |       |        |       |        |        |        |        |         |
|-------------------------|-----------------------------------------------|-------|--------|-------|--------|--------|--------|--------|---------|
| (Dollars in billions)   | 2005                                          | 2006  | 2007   | 2008  | 2009   | 2010   | 2011   | 2012   | Total   |
| GSE <sup>1</sup>        | \$3.4                                         | \$4.0 | \$7.7  | \$7.7 | \$18.5 | \$11.2 | \$11.6 | \$14.9 | \$79.0  |
| Ginnie Mae <sup>1</sup> | 0.7                                           | 0.4   | 0.4    | 2.2   | 4.7    | 3.5    | 2.8    | 3.3    | 18.0    |
| Non-agency              | 3.7                                           | 5.4   | 4.1    | —     | —      | —      | —      | —      | 13.2    |
| Total                   | \$7.8                                         | \$9.8 | \$12.2 | \$9.9 | \$23.2 | \$14.7 | \$14.4 | \$18.2 | \$110.2 |

<sup>1</sup> Balances based on loans serviced by the Company.

Non-agency loan sales include whole loans and loans sold in private securitization transactions. While representations and warranties have been made related to these sales, they differ in many cases from those made in connection with loans sold to the GSEs in that non-agency loans may not be required to meet the same underwriting standards and, in addition to identifying a representation or warranty breach, non-agency investors are generally required to demonstrate that the alleged breach was material, and that it caused the investors' loss. Loans sold to Ginnie Mae are insured by either the FHA or VA. As servicer, we may elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. Although we indemnify the FHA and VA for losses related to loans not originated in accordance with their guidelines, such occurrences have historically been limited and the repurchase liability for loans sold to Ginnie Mae is immaterial. As discussed in Note 13, "Contingencies," during the second quarter the Company was informed of the commencement of an investigation by the HUD regarding origination practices for FHA loans.

Although the timing and volume has varied, repurchase and make whole requests have increased over the past several years. Repurchase requests from GSEs and non-agency investors, for all vintages, were \$1.3 billion during the nine months ended September 30, 2012, and \$1.7 billion, \$1.1 billion, and \$1.1 billion during the years ended 2011, 2010, and 2009, respectively, and on a cumulative basis since 2005 totaled \$6.6 billion, including Ginnie Mae repurchase requests. Repurchase requests from GSEs, Ginnie Mae, and non-agency investors, for 2005 to 2012 originations totaled \$6.4 billion. The majority of these requests are from GSEs, with a limited number of requests having been received from non-agency investors. Repurchase requests from non-agency investors were \$15 million during the nine months ended September 30, 2012, and \$50 million, \$55 million, and \$99 million during the years ended December 31, 2011, 2010, and 2009, respectively. Additionally, repurchase requests related to loans originated during 2006 - 2008 have consistently comprised the vast majority of total repurchase requests

## Notes to Consolidated Financial Statements (Unaudited), continued

during the past three years. The repurchase and make whole requests received have been primarily due to material breaches of representations related to compliance with the applicable underwriting standards, including borrower misrepresentation and appraisal issues. STM performs a loan by loan review of all requests and demands have been contested to the extent they are not considered valid. At September 30, 2012, the unpaid principal balance of loans related to unresolved requests previously received from investors was \$690 million, comprised of \$675 million from the GSEs and \$15 million from non-agency investors. Comparable amounts at December 31, 2011, were \$590 million, comprised of \$578 million from the GSEs and \$12 million from non-agency investors.

The Company uses the best information available when estimating its mortgage repurchase liability. As of September 30, 2012 and December 31, 2011, the Company's estimate of the liability for incurred losses related to all vintages of mortgage loans sold totaled \$694 million and \$320 million, respectively. The increased reserve during the third quarter was a result of recent information received from the GSEs, as well as the Company's recent experience related to full file requests and repurchase demands, which enhanced the Company's ability to estimate future losses attributable to the remaining expected demands on currently delinquent loans sold to the GSEs prior to 2009. The liability is recorded in other liabilities in the Consolidated Balance Sheets, and the related repurchase provision is recognized in mortgage production related (loss)/income in the Consolidated Statements of Income. A significant degree of judgment is used to estimate the mortgage repurchase liability as the estimation process is inherently uncertain and subject to imprecision. The following table summarizes the changes in the Company's reserve for mortgage loan repurchases:

|                                | Three Months Ended<br>September 30 |       | Nine Months Ended September<br>30 |       |
|--------------------------------|------------------------------------|-------|-----------------------------------|-------|
| (Dollars in millions)          | 2012                               | 2011  | 2012                              | 2011  |
| Balance at beginning of period | \$434                              | \$299 | \$320                             | \$265 |
| Repurchase provision           | 371                                | 117   | 701                               | 287   |
| Charge-offs                    | (111)                              | (134) | (327)                             | (270) |
| Balance at end of period       | \$694                              | \$282 | \$694                             | \$282 |

During the nine months ended September 30, 2012 and 2011, the Company repurchased or otherwise settled mortgages with unpaid principal balances of \$558 million and \$488 million, respectively, related to investor demands. As of September 30, 2012 and December 31, 2011, the carrying value of outstanding repurchased mortgage loans, net of any allowance for loan losses, totaled \$246 million and \$252 million, respectively, of which \$92 million and \$134 million, respectively, were nonperforming.

As of September 30, 2012, the Company maintained a reserve for costs associated with foreclosure delays of loans serviced for GSEs. The Company normally retains servicing rights when loans are transferred. As servicer, the Company makes representations and warranties that it will service the loans in accordance with investor servicing guidelines and standards which include collection and remittance of principal and interest, administration of escrow for taxes and insurance, advancing principal, interest, taxes, insurance, and collection expenses on delinquent accounts, loss mitigation strategies including loan modifications, and foreclosures. STM recognizes a liability for contingent losses when MSRs are sold, which totaled \$11 million and \$8 million as of September 30, 2012 and December 31, 2011, respectively.

#### Contingent Consideration

The Company has contingent payment obligations related to certain business combination transactions. Payments are calculated using certain post-acquisition performance criteria. The potential obligation and amount recorded as a liability representing the fair value of the contingent payments was \$30 million and \$10 million as of September 30, 2012 and December 31, 2011, respectively. If required, these contingent payments will be payable within the next four years.

#### Visa

The Company issues and acquires credit and debit card transactions through Visa. The Company is a defendant, along with Visa and MasterCard International (the "Card Associations"), as well as several other banks, in one of several

antitrust lawsuits challenging the practices of the Card Associations (the “Litigation”). The Company entered into judgment and loss sharing agreements with Visa and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Litigation. Additionally, in connection with Visa's restructuring in 2007, a provision of the original Visa By-Laws, Section 2.05j, was restated in Visa's certificate of incorporation. Section 2.05j contains a general indemnification provision between a Visa member and Visa, and explicitly provides that after the closing of the

Notes to Consolidated Financial Statements (Unaudited), continued

restructuring, each member's indemnification obligation is limited to losses arising from its own conduct and the specifically defined Litigation.

As of September 30, 2012, Visa had funded \$8.2 billion into an escrow account, established for the purpose of funding judgments in, or settlements of, the Litigation. Agreements associated with Visa's IPO have provisions that Visa will first use the funds in the escrow account to pay for future settlements of, or judgments in the Litigation. If the escrow account is insufficient to cover the Litigation losses, then Visa will issue additional Class A shares ("loss shares"). The proceeds from the sale of the loss shares would then be deposited in the escrow account. The issuance of the loss shares will cause a dilution of Visa's Class B shares as a result of an adjustment to lower the conversion factor of the Class B shares to Class A shares. Visa U.S.A.'s members are responsible for any portion of the settlement or loss on the Litigation after the escrow account is depleted and the value of the Class B shares is fully-diluted. In May 2009, the Company sold its 3.2 million Visa Inc. Class B shares to the Visa Counterparty and entered into a derivative with the Visa Counterparty. The Company received \$112 million and recognized a gain of \$112 million in connection with these transactions. Under the derivative, the Visa Counterparty is compensated by the Company for any decline in the conversion factor as a result of the outcome of the Litigation. Conversely, the Company is compensated by the Visa Counterparty for any increase in the conversion factor. The amount of payments made or received under the derivative is a function of the 3.2 million shares sold to the Visa Counterparty, the change in conversion rate, and Visa's share price. The Visa Counterparty, as a result of its ownership of the Class B shares, is impacted by dilutive adjustments to the conversion factor of the Class B shares caused by the Litigation losses. The conversion factor at the inception of the derivative in May 2009 was 0.6296 and as of September 30, 2012, the conversion factor had decreased to 0.4206 due to Visa's funding of the litigation escrow account. The decreases in the conversion factor triggered payments by the Company to the Visa Counterparty of \$25 million, \$8 million, and \$17 million, during the nine months ended September 30, 2012, and for the years ended 2011 and 2010, respectively. The estimated fair value of the derivative liability recorded as of September 30, 2012 and December 31, 2011, was \$1 million and \$22 million, respectively. In July 2012, the Card Associations and defendants signed a memorandum of understanding to enter into a settlement agreement to resolve the plaintiffs' claims in the Litigation. Visa's share of the claims represents approximately \$4.4 billion which will be paid from its litigation escrow account. As the escrow account is sufficient to cover the expected liability, the Company does not expect the conversion ratio to decrease below the 0.4206 ratio as of September 30, 2012, and thus, is not expecting any additional payments to the Visa Counterparty, other than certain fixed charges included in the liability, which are payable until the final settlement occurs.

#### Tax Credit Investments Sold

SunTrust Community Capital, a SunTrust subsidiary, previously obtained state and federal tax credits through the construction and development of affordable housing properties and continues to obtain state and federal tax credits through investments in affordable housing developments. SunTrust Community Capital or its subsidiaries are limited and/or general partners in various partnerships established for the properties. Some of the investments that generate state tax credits may be sold to outside investors. As of September 30, 2012, SunTrust Community Capital has completed six sales containing guarantee provisions stating that SunTrust Community Capital will make payment to the outside investors if the tax credits become ineligible. SunTrust Community Capital also guarantees that the general partner under the transaction will perform on the delivery of the credits. The guarantees are expected to expire within a fifteen year period from inception. As of September 30, 2012, the maximum potential amount that SunTrust Community Capital could be obligated to pay under these guarantees is \$37 million; however, SunTrust Community Capital can seek recourse against the general partner. Additionally, SunTrust Community Capital can seek reimbursement from cash flow and residual values of the underlying affordable housing properties provided that the properties retain value. As of September 30, 2012 and December 31, 2011, \$3 million and \$5 million, respectively, was accrued representing the remainder of tax credits to be delivered, and were recorded in other liabilities in the Consolidated Balance Sheets.

#### Other

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

## Notes to Consolidated Financial Statements (Unaudited), continued

## NOTE 12 - FAIR VALUE ELECTION AND MEASUREMENT

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

In certain circumstances, fair value enables a company to more accurately align its financial performance with the economic value of actively traded or hedged assets or liabilities. Fair value also enables a company to mitigate the non-economic earnings volatility caused from financial assets and liabilities being carried at different bases of accounting, as well as, to more accurately portray the active and dynamic management of a company's balance sheet. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. The assumptions used to estimate the value of an instrument have varying degrees of impact to the overall fair value of the asset or liability. This process has involved the gathering of multiple sources of information, including broker quotes, values provided by pricing services, trading activity in other similar securities, market indices, pricing matrices along with employing various modeling techniques, such as discounted cash flow analyses, in arriving at the best estimate of fair value. Any model used to produce material financial reporting information is required to have a satisfactory independent review performed on an annual basis, or more frequently, when significant modifications to the functionality of the model are made. This review is performed by an internal group that separately reports to the Corporate Risk Function.

The Company has formal processes and controls in place to ensure the appropriateness of all fair value estimates. For fair values obtained from a third party, there is an internal independent price validation function within the Finance organization that provides oversight for fair value estimates. For level 2 instruments and certain level 3 instruments, the validation generally involves evaluating pricing received from two or more other third party pricing sources that are widely used by market participants. The Company reviews pricing validation information from both a qualitative and quantitative perspective to determine whether pricing differences exceed acceptable thresholds. In this situation, the Company contacts each pricing service to gain further information on the valuation of a particular security or class of securities to determine the ultimate resolution of the pricing variance, which could include an adjustment to the price used for financial reporting purposes. The Company classifies instruments as level 2 in the fair value hierarchy when it is able to determine that external pricing sources are using similar instruments trading in the markets as the basis for estimating fair value. One way the Company determines this is by the number of pricing services that will provide a quote on the instrument along with the range of values provided by those pricing services. A wide range of quoted values may indicate that significant adjustments to the trades in the market are being made by the pricing services. The Company maintains a cross-functional approach when estimating the fair value for level 3 instruments that are internally valued since the selection of unobservable inputs is subjective. This approach includes input and sign off on assumptions from not only the related line of business, but also from risk management and finance, to ultimately arrive at a consensus estimate of the instrument's fair value after evaluating all available information pertaining to fair value. Inputs, assumptions and overall conclusions on internally priced level 3 valuations are formally documented on a quarterly basis.

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

flow modeling, and the selection of an appropriate discount rate. The assumptions used to estimate the value of an instrument where the market was inactive are based on the Company's assessment of the assumptions a market participant would use to value the instrument in an orderly transaction and include considerations of illiquidity in the current market environment.

## Notes to Consolidated Financial Statements (Unaudited), continued

## Recurring Fair Value Measurements

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

| (Dollars in millions)                  | Assets/Liabilities | Fair Value Measurements at<br>September 30, 2012<br>Using                                 |                                                           |                                                    |
|----------------------------------------|--------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        |                    | Quoted Prices In<br>Active<br>Markets for<br>Identical<br>Assets/Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets                                 |                    |                                                                                           |                                                           |                                                    |
| Trading assets:                        |                    |                                                                                           |                                                           |                                                    |
| U.S. Treasury securities               | \$113              | \$113                                                                                     | \$—                                                       | \$—                                                |
| Federal agency securities              | 427                | —                                                                                         | 427                                                       | —                                                  |
| U.S. states and political subdivisions | 24                 | —                                                                                         | 24                                                        | —                                                  |
| MBS - agency                           | 667                | —                                                                                         | 667                                                       | —                                                  |
| MBS - private                          | 1                  | —                                                                                         | —                                                         | 1                                                  |
| CDO/CLO securities                     | 49                 | —                                                                                         | 2                                                         | 47                                                 |
| ABS                                    | 37                 | —                                                                                         | 32                                                        | 5                                                  |
| Corporate and other debt securities    | 373                | —                                                                                         | 373                                                       | —                                                  |
| CP                                     | 60                 | —                                                                                         | 60                                                        | —                                                  |
| Equity securities                      | 100                | 100                                                                                       | —                                                         | —                                                  |
| Derivative contracts                   | 3,214              | 198                                                                                       | 3,016                                                     | —                                                  |
| Trading loans                          | 2,183              | —                                                                                         | 2,183                                                     | —                                                  |
| Gross trading assets                   | 7,248              | 411                                                                                       | 6,784                                                     | 53                                                 |
| Offsetting collateral <sup>1</sup>     | (867               | )                                                                                         |                                                           |                                                    |
| Total trading assets                   | 6,381              |                                                                                           |                                                           |                                                    |
| Securities AFS:                        |                    |                                                                                           |                                                           |                                                    |
| U.S. Treasury securities               | 224                | 224                                                                                       | —                                                         | —                                                  |
| Federal agency securities              | 1,802              | —                                                                                         | 1,802                                                     | —                                                  |
| U.S. states and political subdivisions | 355                | —                                                                                         | 304                                                       | 51                                                 |
| MBS - agency                           | 17,586             | —                                                                                         | 17,586                                                    | —                                                  |
| MBS - private                          | 217                | —                                                                                         | —                                                         | 217                                                |
| ABS                                    | 261                | —                                                                                         | 243                                                       | 18                                                 |
| Corporate and other debt securities    | 46                 | —                                                                                         | 41                                                        | 5                                                  |
| Other equity securities <sup>2</sup>   | 976                | 141                                                                                       | —                                                         | 835                                                |
| Total securities AFS                   | 21,467             | 365                                                                                       | 19,976                                                    | 1,126                                              |
| LHFS:                                  |                    |                                                                                           |                                                           |                                                    |
| Residential loans                      | 2,894              | —                                                                                         | 2,890                                                     | 4                                                  |
| Corporate and other loans              | 328                | —                                                                                         | 328                                                       | —                                                  |
| Total LHFS                             | 3,222              | —                                                                                         | 3,218                                                     | 4                                                  |
| LHFI                                   | 390                | —                                                                                         | —                                                         | 390                                                |
| MSRs                                   | 831                | —                                                                                         | —                                                         | 831                                                |
| Other assets <sup>3</sup>              | 477                | 2                                                                                         | 277                                                       | 198                                                |
| Liabilities                            |                    |                                                                                           |                                                           |                                                    |
| Trading liabilities:                   |                    |                                                                                           |                                                           |                                                    |
| U.S. Treasury securities               | 473                | 473                                                                                       | —                                                         | —                                                  |

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|                                     |        |     |       |    |
|-------------------------------------|--------|-----|-------|----|
| MBS - agency                        | 1      | —   | 1     | —  |
| Corporate and other debt securities | 200    | —   | 200   | —  |
| Equity securities                   | 9      | 9   | —     | —  |
| Derivative contracts                | 2,115  | 2   | 2,113 | —  |
| Gross trading liabilities           | 2,798  | 484 | 2,314 | —  |
| Offsetting collateral <sup>1</sup>  | (1,340 | )   |       |    |
| Total trading liabilities           | 1,458  |     |       |    |
| Brokered time deposits              | 900    | —   | 900   | —  |
| Long-term debt                      | 2,050  | —   | 2,050 | —  |
| Other liabilities <sup>3,4</sup>    | 194    | —   | 162   | 32 |

<sup>1</sup>Amount represents the cash collateral received from or deposited with derivative counterparties. Amount is offset with derivatives in the Consolidated Balance Sheets as of September 30, 2012.

<sup>2</sup>Includes at cost, \$432 million of FHLB of Atlanta stock, \$401 million of Federal Reserve Bank stock, and \$141 million in mutual fund investments.

<sup>3</sup>These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk.

<sup>4</sup>These amounts include the derivative associated with the Company's sale of Visa shares during the year ended December 31, 2009, certain CDS, and the contingent consideration obligation related to an acquisition.

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Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                  | Assets/Liabilities | Fair Value Measurements at<br>December 31, 2011                                                    |                                                           |                                                    |
|----------------------------------------|--------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                        |                    | Using<br>Quoted Prices<br>In Active<br>Markets for<br>Identical<br>Assets/Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets                                 |                    |                                                                                                    |                                                           |                                                    |
| Trading assets:                        |                    |                                                                                                    |                                                           |                                                    |
| U.S. Treasury securities               | \$144              | \$144                                                                                              | \$—                                                       | \$—                                                |
| Federal agency securities              | 478                | —                                                                                                  | 478                                                       | —                                                  |
| U.S. states and political subdivisions | 54                 | —                                                                                                  | 54                                                        | —                                                  |
| MBS - agency                           | 412                | —                                                                                                  | 412                                                       | —                                                  |
| MBS - private                          | 1                  | —                                                                                                  | —                                                         | 1                                                  |
| CDO/CLO securities                     | 45                 | —                                                                                                  | 2                                                         | 43                                                 |
| ABS                                    | 37                 | —                                                                                                  | 32                                                        | 5                                                  |
| Corporate and other debt securities    | 344                | —                                                                                                  | 344                                                       | —                                                  |
| CP                                     | 229                | —                                                                                                  | 229                                                       | —                                                  |
| Equity securities                      | 91                 | 91                                                                                                 | —                                                         | —                                                  |
| Derivative contracts                   | 3,444              | 306                                                                                                | 3,138                                                     | —                                                  |
| Trading loans                          | 2,030              | —                                                                                                  | 2,030                                                     | —                                                  |
| Gross trading assets                   | 7,309              | 541                                                                                                | 6,719                                                     | 49                                                 |
| Offsetting collateral <sup>1</sup>     | (1,030)            | )                                                                                                  |                                                           |                                                    |
| Total trading assets                   | 6,279              |                                                                                                    |                                                           |                                                    |
| Securities AFS:                        |                    |                                                                                                    |                                                           |                                                    |
| U.S. Treasury securities               | 694                | 694                                                                                                | —                                                         | —                                                  |
| Federal agency securities              | 1,932              | —                                                                                                  | 1,932                                                     | —                                                  |
| U.S. states and political subdivisions | 454                | —                                                                                                  | 396                                                       | 58                                                 |
| MBS - agency                           | 21,223             | —                                                                                                  | 21,223                                                    | —                                                  |
| MBS - private                          | 221                | —                                                                                                  | —                                                         | 221                                                |
| CDO/CLO securities                     | 50                 | —                                                                                                  | 50                                                        | —                                                  |
| ABS                                    | 464                | —                                                                                                  | 448                                                       | 16                                                 |
| Corporate and other debt securities    | 51                 | —                                                                                                  | 46                                                        | 5                                                  |
| Coke common stock                      | 2,099              | 2,099                                                                                              | —                                                         | —                                                  |
| Other equity securities <sup>2</sup>   | 929                | 188                                                                                                | —                                                         | 741                                                |
| Total securities AFS                   | 28,117             | 2,981                                                                                              | 24,095                                                    | 1,041                                              |
| LHFS:                                  |                    |                                                                                                    |                                                           |                                                    |
| Residential loans                      | 1,826              | —                                                                                                  | 1,825                                                     | 1                                                  |
| Corporate and other loans              | 315                | —                                                                                                  | 315                                                       | —                                                  |
| Total LHFS                             | 2,141              | —                                                                                                  | 2,140                                                     | 1                                                  |
| LHFI                                   | 433                | —                                                                                                  | —                                                         | 433                                                |
| MSRs                                   | 921                | —                                                                                                  | —                                                         | 921                                                |
| Other assets <sup>3</sup>              | 554                | 7                                                                                                  | 463                                                       | 84                                                 |
| Liabilities                            |                    |                                                                                                    |                                                           |                                                    |
| Trading liabilities:                   |                    |                                                                                                    |                                                           |                                                    |
| U.S. Treasury securities               | 569                | 569                                                                                                | —                                                         | —                                                  |
| Corporate and other debt securities    | 77                 | —                                                                                                  | 77                                                        | —                                                  |

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|                                    |        |     |       |     |
|------------------------------------|--------|-----|-------|-----|
| Equity securities                  | 37     | 37  | —     | —   |
| Derivative contracts               | 2,293  | 174 | 1,930 | 189 |
| Gross trading liabilities          | 2,976  | 780 | 2,007 | 189 |
| Offsetting collateral <sup>1</sup> | (1,170 | )   |       |     |
| Total trading liabilities          | 1,806  |     |       |     |
| Brokered time deposits             | 1,018  | —   | 1,018 | —   |
| Long-term debt                     | 1,997  | —   | 1,997 | —   |
| Other liabilities <sup>3,4</sup>   | 84     | 1   | 61    | 22  |

<sup>1</sup>Amount represents the cash collateral received from or deposited with derivative counterparties. Amount is offset with derivatives in the Consolidated Balance Sheets as of December 31, 2011.

<sup>2</sup> Includes at cost, \$342 million of FHLB of Atlanta stock, \$398 million of Federal Reserve Bank stock, and \$187 million in mutual fund investments.

<sup>3</sup>These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk.

<sup>4</sup>These amounts include the derivative associated with the Company's sale of Visa shares during the year ended December 31, 2009.

## Notes to Consolidated Financial Statements (Unaudited), continued

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

| (Dollars in millions)             | Aggregate<br>Fair Value<br>September 30, 2012 | Aggregate<br>Unpaid Principal<br>Balance under FVO<br>September 30, 2012 | Fair Value<br>Over/(Under)<br>Unpaid Principal |
|-----------------------------------|-----------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------|
| Trading loans                     | \$2,183                                       | \$2,161                                                                  | \$22                                           |
| LHFS                              | 3,218                                         | 3,047                                                                    | 171                                            |
| Past due loans of 90 days or more | 1                                             | 3                                                                        | (2)                                            |
| Nonaccrual loans                  | 3                                             | 11                                                                       | (8)                                            |
| LHFI                              | 375                                           | 394                                                                      | (19)                                           |
| Past due loans of 90 days or more | 1                                             | 2                                                                        | (1)                                            |
| Nonaccrual loans                  | 14                                            | 30                                                                       | (16)                                           |
| Brokered time deposits            | 900                                           | 895                                                                      | 5                                              |
| Long-term debt                    | 2,050                                         | 1,899                                                                    | 151                                            |
| (Dollars in millions)             | Aggregate<br>Fair Value<br>December 31, 2011  | Aggregate<br>Unpaid Principal<br>Balance under FVO<br>December 31, 2011  | Fair Value<br>Over/(Under)<br>Unpaid Principal |
| Trading loans                     | \$2,030                                       | \$2,010                                                                  | \$20                                           |
| LHFS                              | 2,139                                         | 2,077                                                                    | 62                                             |
| Past due loans of 90 days or more | 1                                             | 1                                                                        | —                                              |
| Nonaccrual loans                  | 1                                             | 8                                                                        | (7)                                            |
| LHFI                              | 407                                           | 439                                                                      | (32)                                           |
| Past due loans of 90 days or more | 1                                             | 2                                                                        | (1)                                            |
| Nonaccrual loans                  | 25                                            | 48                                                                       | (23)                                           |
| Brokered time deposits            | 1,018                                         | 1,011                                                                    | 7                                              |
| Long-term debt                    | 1,997                                         | 1,901                                                                    | 96                                             |

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Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present the change in fair value during the three and nine months ended September 30, 2012 and 2011, of financial instruments for which the FVO has been elected, as well as MSRs. The tables do not reflect the change in fair value attributable to the related economic hedges the Company used to mitigate the market-related risks associated with the financial instruments. Generally, the changes in the fair value of economic hedges are also recognized in trading income, mortgage production related (loss)/income, or mortgage servicing related income, as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company's economic hedging activities are deployed at both the instrument and portfolio level.

| (Dollars in millions)  | Fair Value Gain/(Loss) for the Three Months Ended<br>September 30, 2012, for Items Measured at Fair Value Pursuant to Election of the FVO |                                                        |                                   |                                                                               | Fair Value Gain/(Loss) for the Nine Months Ended<br>September 30, 2012, for Items Measured at Fair Value Pursuant to Election of the FVO |                                                        |                                   |                                                                               |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------|-------------------------------------------------------------------------------|
|                        | Trading Income                                                                                                                            | Mortgage Production Related (Loss)/Income <sup>1</sup> | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current-Period Earnings <sup>2</sup> | Trading Income                                                                                                                           | Mortgage Production Related (Loss)/Income <sup>1</sup> | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current-Period Earnings <sup>2</sup> |
| <b>Assets</b>          |                                                                                                                                           |                                                        |                                   |                                                                               |                                                                                                                                          |                                                        |                                   |                                                                               |
| Trading loans          | \$9                                                                                                                                       | \$—                                                    | \$—                               | \$9                                                                           | \$25                                                                                                                                     | \$—                                                    | \$—                               | \$25                                                                          |
| LHFS                   | 5                                                                                                                                         | 336                                                    | —                                 | 341                                                                           | 10                                                                                                                                       | 739                                                    | —                                 | 749                                                                           |
| LHFI                   | —                                                                                                                                         | 5                                                      | —                                 | 5                                                                             | 1                                                                                                                                        | 7                                                      | —                                 | 8                                                                             |
| MSRs                   | —                                                                                                                                         | 1                                                      | (116)                             | (115)                                                                         | —                                                                                                                                        | 31                                                     | (330)                             | (299)                                                                         |
| <b>Liabilities</b>     |                                                                                                                                           |                                                        |                                   |                                                                               |                                                                                                                                          |                                                        |                                   |                                                                               |
| Brokered time deposits | (3)                                                                                                                                       | —                                                      | —                                 | (3)                                                                           | 4                                                                                                                                        | —                                                      | —                                 | 4                                                                             |
| Long-term debt         | (41)                                                                                                                                      | —                                                      | —                                 | (41)                                                                          | (55)                                                                                                                                     | —                                                      | —                                 | (55)                                                                          |

<sup>1</sup>For the three and nine months ended September 30, 2012, income related to LHFS includes \$82 million and \$213 million, respectively, related to MSRs recognized upon the sale of loans reported at fair value. For the three and nine months ended September 30, 2012, income related to MSRs includes \$1 million and \$31 million, respectively, of MSRs recognized upon the sale of loans reported at LOCOM.

<sup>2</sup>Changes in fair value for the three and nine months ended September 30, 2012, exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income.

| (Dollars in millions) | Fair Value Gain/(Loss) for the Three Months Ended<br>September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO |                                                        |                                   |                                                  | Fair Value Gain/(Loss) for the Nine Months Ended<br>September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO |                                                        |                                   |                                                  |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------|--------------------------------------------------|
|                       | Trading Income                                                                                                                            | Mortgage Production Related (Loss)/Income <sup>1</sup> | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current | Trading Income                                                                                                                           | Mortgage Production Related (Loss)/Income <sup>1</sup> | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current |

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|                        | Period<br>Earnings <sup>2</sup> |       |      |        |      |       | Period<br>Earnings <sup>2</sup> |        |   |
|------------------------|---------------------------------|-------|------|--------|------|-------|---------------------------------|--------|---|
| Assets                 |                                 |       |      |        |      |       |                                 |        |   |
| Trading loans          | \$3                             | \$—   | \$—  | \$3    | \$15 | \$—   | \$—                             | \$15   |   |
| LHFS                   | (11                             | ) 181 | —    | 170    | (14  | ) 330 | —                               | 316    |   |
| LHFI                   | (1                              | ) 17  | —    | 16     | 3    | 13    | —                               | 16     |   |
| MSRs                   | —                               | 1     | (437 | ) (436 | ) —  | 5     | (582                            | ) (577 | ) |
| Liabilities            |                                 |       |      |        |      |       |                                 |        |   |
| Brokered time deposits | 27                              | —     | —    | 27     | 24   | —     | —                               | 24     |   |
| Long-term debt         | 7                               | —     | —    | 7      | (31  | ) —   | —                               | (31    | ) |

<sup>1</sup>For the three and nine months ended September 30, 2011, income related to LHFS includes \$46 million and \$178 million, respectively, related to MSRs recognized upon the sale of loans reported at fair value. For the three and nine months ended September 30, 2011, income related to MSRs includes \$1 million and \$5 million, respectively, of MSRs recognized upon the sale of loans reported at LOCOM.

<sup>2</sup>Changes in fair value for the three and nine months ended September 30, 2011, exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be carried at fair value are recorded in interest income or interest expense in the Consolidated Statements of Income.

Notes to Consolidated Financial Statements (Unaudited), continued

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

Trading Assets and Securities Available for Sale

Unless otherwise indicated, trading assets are priced by the trading desk and securities AFS are valued by an independent third party pricing service.

Federal agency securities

The Company includes in this classification securities issued by federal agencies and GSEs. Agency securities consist of debt obligations issued by HUD, FHLB, and other agencies or collateralized by loans that are guaranteed by the SBA and are, therefore, backed by the full faith and credit of the U.S. government. For SBA instruments, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has classified these instruments as level 2.

U.S. states and political subdivisions

The Company's investments in U.S. states and political subdivisions (collectively "municipals") include obligations of county and municipal authorities and agency bonds, which are general obligations of the municipality or are supported by a specified revenue source. Holdings were geographically dispersed, with no significant concentrations in any one state or municipality. Additionally, all but an immaterial amount of AFS municipal obligations classified as level 2 are highly rated or are otherwise collateralized by securities backed by the full faith and credit of the federal government. Level 3 AFS municipal securities includes ARS purchased since the auction rate market began failing in February 2008 and have been considered level 3 securities due to the significant decrease in the volume and level of activity in these markets, which has necessitated the use of significant unobservable inputs into the Company's valuations. Municipal ARS are classified as securities AFS. These securities were valued using comparisons to similar ARS for which auctions are currently successful and/or to longer term, non-ARS issued by similar municipalities. The Company also evaluated the relative strength of the municipality and made appropriate downward adjustments in price based on the credit rating of the municipality as well as the relative financial strength of the insurer on those bonds. Although auctions for several municipal ARS have been operating successfully, ARS owned by the Company at September 30, 2012, continued to be classified as level 3 as they are those ARS for which the auctions continued to fail; accordingly, due to the uncertainty around the success rates for auctions and the absence of any successful auctions for these identical securities, the Company continued to price the ARS below par.

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

MBS – agency

MBS – agency includes pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae. Each security contains a guarantee by the issuing GSE or agency. For agency MBS, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has classified these instruments as level 2.

MBS – private

Private MBS includes purchased interests in third party securitizations, as well as retained interests in Company-sponsored securitizations of residential mortgages. Generally, the Company attempts to obtain pricing for its securities from an independent pricing service or third party brokers who have experience in valuing certain investments. This pricing may be used as either direct support for the Company's valuations or used to validate outputs from its own proprietary models. The Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, market information received from outside market participants and analysts, and/or changes in the underlying collateral performance. As liquidity returns to these markets, the Company has seen more pricing information from third parties and a reduction in the need to use pricing

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

## Notes to Consolidated Financial Statements (Unaudited), continued

Securities that are classified as AFS and are in an unrealized loss position are included as part of the Company's quarterly OTTI evaluation process. See Note 2, "Securities Available for Sale," for details regarding assumptions used to assess impairment and impairment amounts recognized through earnings on private MBS during the three and nine months ended September 30, 2012 and 2011.

## CDO/CLO Securities

Level 2 securities AFS at December 31, 2011, consisted of a senior interest in a third party CLOs for which independent broker pricing based on market trades and/or from new issuance of similar assets is readily available. This interest was repaid in full by the issuer during the second quarter of 2012. The Company's investments in level 3 trading CDOs consisted of senior ARS interests in Company-sponsored securitizations of trust preferred collateral. These auctions continue to fail and the Company continues to make significant adjustments to valuation assumptions based on information available from observable secondary market trading of similar term securities; therefore, the Company continued to classify these as level 3 investments. During the second quarter of 2012, the Company began valuing these interests by constructing a pricing matrix of values based on a range of overcollateralization levels that are derived from discussions with the dealer community along with limited trade data. The price derived from the matrix is then adjusted for each security based on deal specific factors such as the percentage of collateral that is considered to be at heightened risk for future deferral or default, and collateral specific prepayment expectations, among other factors. See Note 6, "Certain Transfers of Financial Assets and Variable Interest Entities," for discussion of the sensitivity of these interests to changes in the assumptions.

## Asset-backed securities

Level 2 ABS classified as securities AFS are primarily interests collateralized by third party securitizations of 2009 through 2011 vintage auto loans. These ABS are either publicly traded or are 144A privately placed bonds. The Company utilizes an independent pricing service to obtain fair values for publicly traded securities and similar securities for estimating the fair value of the privately placed bonds. No significant unobservable assumptions were used in pricing the auto loan ABS; therefore, the Company classified these bonds as level 2. Level 3 ABS classified as securities AFS are valued based on third-party pricing with significant unobservable assumptions. Additionally, the Company classified \$32 million of trading ARS and \$71 million of AFS ARS collateralized by government guaranteed student loans as level 2 due to observable market trades and bids for similar senior securities. Student loan ABS held by the Company are generally collateralized by FFELP student loans, the majority of which benefit from a maximum guarantee amount of 97%. For valuations of subordinate securities in the same structure, the Company adjusts valuations on the senior securities based on the likelihood that the issuer will refinance in the near term, a security's level of subordination in the structure, and/or the perceived risk of the issuer as determined by credit ratings or total leverage of the trust. These adjustments may be significant; therefore, the subordinate student loan ARS held as trading assets continue to be classified as level 3.

## Corporate and other debt securities

Corporate debt securities are predominantly comprised of senior and subordinate debt obligations of domestic corporations and are classified as level 2. Other debt securities in level 3 include bonds that are redeemable with the issuer at par and cannot be traded in the market; as such, no significant observable market data for these instruments is available.

## Commercial paper

From time to time, the Company trades third party CP that is generally short-term in nature (less than 30 days) and highly rated. The Company estimates the fair value of the CP that it trades based on observable pricing from executed trades of similar instruments; thus, CP is classified as level 2.

## Equity securities

Level 3 equity securities classified as securities AFS include, as of September 30, 2012 and December 31, 2011, \$833 million and \$740 million, respectively, of FHLB stock and Federal Reserve Bank stock, which are redeemable with the issuer at cost and cannot be traded in the market. As such, no significant observable market data for these instruments is available. The Company accounts for the stock based on the industry guidance that requires these investments be carried at cost and evaluated for impairment based on the ultimate recovery of cost.

Derivative contracts (trading assets or trading liabilities)

With the exception of one derivative contract discussed herein and certain instruments discussed under "other assets/liabilities, net" that qualify as derivative instruments, the Company's derivative instruments are level 1 or 2 instruments. Level 1 derivative contracts generally include exchange-traded futures or option contracts for which pricing is readily available. See Note 10, "Derivative Financial Instruments," for additional information on the Company's derivative contracts.

The Company's level 2 instruments are predominantly standard OTC swaps, options, and forwards, with underlying market variables of interest rates, foreign exchange, equity, and credit. Because fair values for OTC contracts are not readily

## Notes to Consolidated Financial Statements (Unaudited), continued

available, the Company estimates fair values using internal, but standard, valuation models that incorporate market-observable inputs. The valuation model is driven by the type of contract: for option-based products, the Company uses an appropriate option pricing model, such as Black-Scholes; for forward-based products, the Company's valuation methodology is generally a discounted cash flow approach. The primary drivers of the fair values of derivative instruments are the underlying variables, such as interest rates, exchange rates, equity, or credit. As such, the Company uses market-based assumptions for all of its significant inputs, such as interest rate yield curves, quoted exchange rates and spot prices, market implied volatilities, and credit curves.

During the three months ended September 30, 2012, the Company terminated the Agreements that were entered into in 2008 related to its Coke common stock. The Agreements were considered level 3 instruments due to the unobservability of the volatility assumption used to value these instruments. Volatility was a significant assumption used in the valuation of the Agreements and was unobservable due to the unusually large size of the trade and the long tenor until settlement, which was originally 6.5 years and 7 years from the effective date. Because of this significant unobservable assumption, the observable and active options market on Coke did not provide for any identical or similar instruments. Prior to termination of the Agreements, the Company received estimated market values from a market participant who is knowledgeable about Coke equity derivatives and is active in the market. Based on inquiries of the market participant as to their procedures, as well as the Company's own valuation assessment procedures, the Company satisfied itself that the market participant was using methodologies and assumptions that other market participants would use in estimating the fair value of the Agreements. At December 31, 2011, the Agreements' combined fair value was a liability of \$189 million.

See Note 10, "Derivative Financial Instruments," to the Consolidated Financial Statements, for additional information on the Company's derivative contracts.

#### Trading loans

The Company engages in certain businesses whereby the election to carry loans at fair value for financial reporting aligns with the underlying business purposes. Specifically, the loans that are included within this classification are: (i) loans made or acquired in connection with the Company's TRS business (see Note 6, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 10, "Derivative Financial Instruments," for further discussion of this business), (ii) loans backed by the SBA, and (iii) the loan sales and trading business within the Company's Wholesale Banking line of business. All of these loans have been classified as level 2, due to the market data that the Company uses in its estimates of fair value.

The loans made in connection with the Company's TRS business are short-term, demand loans, whereby the repayment is senior in priority and whose value is collateralized. While these loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are made by the Company to arrive at this conclusion. At September 30, 2012 and December 31, 2011, the Company had outstanding \$1.9 billion and \$1.7 billion, respectively, of such short-term loans carried at fair value.

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

The loans from the Company's sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to carry these loans at fair value to reflect the active management of these positions. The Company is able to obtain fair value estimates for substantially all of these loans using a third party valuation service that is broadly used by market participants. While most of the loans are traded in the markets, the Company does not believe that trading activity qualifies the loans as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is a more appropriate presentation of the underlying market activity for the loans. At September 30, 2012 and December 31, 2011, \$251 million and \$323 million, respectively, of loans related to the Company's trading business were held in inventory.

All recognized gains or losses due to changes in fair value are attributable to instrument-specific credit risk.

Loans Held for Sale and Loans Held for Investment

Residential LHFS

The Company recognized at fair value certain newly-originated mortgage LHFS based upon defined product criteria. The Company chooses to fair value these mortgage LHFS to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and

## Notes to Consolidated Financial Statements (Unaudited), continued

related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value. Specifically, origination fees and costs are recognized in earnings when earned or incurred. The servicing value, which had been recorded as MSR assets at the time the loan was sold under previous requirements, is included in the fair value of the loan and initially recognized at the time the Company enters into IRLCs with borrowers. The Company uses derivatives to economically hedge changes in servicing value as a result of including the servicing value in the fair value of the loan. The mark-to-market adjustments related to LHFS and the associated economic hedges are captured in mortgage production related (loss)/income.

Level 2 LHFS are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities adjusted for servicing and risk and also include non-agency residential mortgages. Due to the non-agency residential loan market disruption, which began during the third quarter of 2007, there was little to no observable trading activity of similar instruments and the Company classified these LHFS as level 3. Recently, the Company has been able to obtain observable pricing from the secondary loan market in which the Company has been a market participant. Therefore, the Company has reclassified these LHFS as level 2. In the tabular level 3 rollforwards, transfers of certain mortgage LHFS into level 3 during 2012 and 2011 were not due to using alternative valuation approaches, but were largely due to borrower defaults or the identification of other loan defects impacting the marketability of the loans.

For residential loans that the Company has elected to carry at fair value, the Company has considered the component of the fair value changes due to instrument-specific credit risk, which is intended to be an approximation of the fair value change attributable to changes in borrower-specific credit risk. For the three and nine months ended September 30, 2012, the Company recognized gains in the Consolidated Statements of Income of \$5 million, and \$7 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. For the three and nine months ended September 30, 2011, the Company recognized losses in the Consolidated Statements of Income of \$4 million and \$14 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. In addition to borrower-specific credit risk, there are other, more significant, variables that drive changes in the fair values of the loans, including interest rates and general conditions in the principal markets for the loans.

#### Corporate and other LHFS

As discussed in Note 6, "Certain Transfers of Financial Assets and Variable Interest Entities," the Company has determined that it is the primary beneficiary of a CLO vehicle, which resulted in the Company consolidating the loans of that vehicle. Because the CLO trades its loans from time to time and to fairly present the economics of the CLO, the Company elected to carry the loans of the CLO at fair value. The Company is able to obtain fair value estimates for substantially all of these loans using a third party valuation service that is broadly used by market participants.

While most of the loans are traded in the markets, the Company does not believe the loans qualify as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is more representative of the general market activity for the loans.

#### LHFI

Level 3 LHFI predominantly includes mortgage loans that have been deemed not marketable, largely due to borrower defaults or the identification of other loan defects. The Company values these loans using a discounted cash flow approach based on assumptions that are generally not observable in the current markets, such as prepayment speeds, default rates, loss severity rates, and discount rates. These assumptions have an inverse relationship to the overall fair value. Level 3 LHFI also include mortgage loans that are valued using collateral based pricing. Changes in the applicable housing price index since the time of the loan origination are considered and applied to the loan's collateral value. An additional discount representing the return that a buyer would require is also considered in the overall fair value.

#### Other Intangible Assets

Other intangible assets that the Company records at fair value are the Company's MSR assets. The fair values of MSR assets are determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair values of MSR assets are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. For additional

information, see Note 5, "Goodwill and Other Intangible Assets." The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio. Because these inputs are not transparent in market trades, MSRs are considered to be level 3 assets.

Notes to Consolidated Financial Statements (Unaudited), continued

Other Assets/Liabilities, net

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

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

During the three and nine months ended September 30, 2012, the Company transferred \$269 million and \$659 million of IRLCs out of level 3 as the associated loans were closed, compared to \$95 million and \$149 million, during the same periods in 2011, respectively.

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

During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of litigation involving Visa. The value of the derivative was estimated based on the Company's expectations regarding the ultimate resolution of that litigation, which involved a high degree of judgment and subjectivity. Accordingly, the value of the derivative liability was classified as a level 3 instrument. See Note 11, "Reinsurance Arrangements and Guarantees," for a discussion of the valuation assumptions.

Contingent consideration associated with acquisitions is adjusted to fair value until settled. As the assumptions used to measure fair value are based on internal metrics that are not market observable, the earn out is considered a level 3 liability.

Liabilities

Trading liabilities

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

Brokered time deposits

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

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

For brokered time deposits carried at fair value, the Company estimated credit spreads above LIBOR, based on credit spreads from actual or estimated trading levels of the debt or other relevant market data. The Company recognized losses of approximately \$5 million and \$11 million for the three and nine months ended September 30, 2012, respectively, and

Notes to Consolidated Financial Statements (Unaudited), continued

gains of \$13 million and \$1 million for the three and nine months ended September 30, 2011, respectively, due to changes in its own credit spread on its brokered time deposits carried at fair value.

Long-term debt

The Company has elected to carry at fair value certain fixed rate debt issuances of public debt which are valued by obtaining quotes from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. Additionally, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company determined that the appropriate classification for the debt was level 2. The election to fair value the debt was made to align the accounting for the debt with the accounting for the derivatives without having to account for the debt under hedge accounting, thus avoiding the complex and time consuming fair value hedge accounting requirements.

The Company's public debt carried at fair value impacts earnings predominantly through changes in the Company's credit spreads as the Company has entered into derivative financial instruments that economically convert the interest rate on the debt from fixed to floating. The estimated earnings impact from changes in credit spreads above U.S. Treasury rates were losses of \$48 million and \$54 million for the three and nine months ended September 30, 2012, respectively, and gains of \$57 million and \$43 million for the three and nine months ended September 30, 2011, respectively.

The Company also carries approximately \$287 million of issued securities contained in a consolidated CLO at fair value to recognize the nonrecourse nature of these liabilities to the Company. Specifically, the holders of the liabilities are only paid interest and principal to the extent of the cash flows from the assets of the vehicle and the Company has no current or future obligations to fund any of the CLO vehicle's liabilities. The Company has classified these securities as level 2, as the primary driver of their fair values are the loans owned by the CLO, which the Company has also elected to carry at fair value, as discussed herein under "Loans Held for Investment and Loans Held for Sale – Corporate and other LHFS."

## Notes to Consolidated Financial Statements (Unaudited), continued

The valuation technique and range, including weighted average, of the unobservable inputs associated with the Company's level 3 assets and liabilities are as follows:

| (Dollars in millions)                        | Level 3 Significant Unobservable Input Assumptions |                                        |                                                               | Range<br>(weighted average) |
|----------------------------------------------|----------------------------------------------------|----------------------------------------|---------------------------------------------------------------|-----------------------------|
|                                              | Fair value<br>September<br>30, 2012                | Valuation Technique                    | Unobservable Input <sup>1</sup>                               |                             |
| Assets:                                      |                                                    |                                        |                                                               |                             |
| Trading assets:                              |                                                    |                                        |                                                               |                             |
| MBS - private                                | \$1                                                | Third party pricing                    | N/A                                                           |                             |
|                                              |                                                    |                                        | Indicative pricing based<br>on overcollateralization<br>ratio | \$29-\$45 (\$38)            |
| CDO/CLO securities                           | 47                                                 | Matrix pricing                         | Estimated collateral<br>losses                                | 37-50% (41%)                |
| ABS                                          | 5                                                  | Matrix pricing                         | Indicative pricing                                            | \$45 (\$45)                 |
| Securities AFS:                              |                                                    |                                        |                                                               |                             |
| U.S. states and political<br>subdivisions    | 51                                                 | Matrix pricing                         | Indicative pricing                                            | \$72-\$115 (\$101)          |
| MBS - private                                | 217                                                | Third party pricing                    | N/A                                                           |                             |
| ABS                                          | 18                                                 | Third party pricing                    | N/A                                                           |                             |
| Corporate and other debt<br>securities       | 5                                                  | Cost                                   | N/A                                                           |                             |
| Other equity securities                      | 835                                                | Cost                                   | N/A                                                           |                             |
|                                              |                                                    |                                        | Option adjusted spread                                        | 0-300 bps (66 bps)          |
| Residential LHFS                             | 4                                                  | Monte<br>Carlo/Discounted<br>cash flow | Conditional prepayment<br>rate                                | 0-36% (23%)                 |
|                                              |                                                    |                                        | Conditional default rate                                      | 0-25% (7%)                  |
|                                              |                                                    |                                        | Option adjusted spread                                        | 0-300 bps (66 bps)          |
| LHFI                                         | 376                                                | Monte<br>Carlo/Discounted<br>cash flow | Conditional prepayment<br>rate                                | 0-36% (23%)                 |
|                                              |                                                    |                                        | Conditional default rate                                      | 0-25% (7%)                  |
|                                              | 14                                                 | Collateral based<br>pricing            | Appraised value                                               | NM <sup>2</sup>             |
| MSRs                                         | 831                                                | Discounted cash<br>flow                | Conditional prepayment<br>rate                                | 6-35% (19%)                 |
|                                              |                                                    |                                        | Discount rate                                                 | 8-28% (11%)                 |
|                                              |                                                    |                                        | Pull through rate                                             | 5-98% (67%)                 |
| Other assets/(liabilities), net <sup>3</sup> | 198                                                | Internal model                         | MSR value                                                     | 2-234bps (89 bps)           |
|                                              | (24 )                                              | Internal model                         | Loan production volume                                        | 0-150% (92%)                |
|                                              | (7 )                                               | Internal model                         | Revenue run rate                                              | NM <sup>2</sup>             |

<sup>1</sup>For certain assets and liabilities that the Company utilizes third party pricing, the unobservable inputs and their ranges are not reasonably available to the Company; and therefore, have been noted as "N/A."

<sup>2</sup>Not meaningful.

<sup>3</sup>Input assumptions relate to the Company's IRLCs and the contingent consideration obligation related to an acquisition. Excludes \$1 million of Other Liabilities. Refer to Note 11, "Reinsurance Arrangements and Guarantees," for additional information.

## Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present a reconciliation of the beginning and ending balances for fair valued assets and liabilities measured on a recurring basis using significant unobservable inputs (other than MSRs which are disclosed in Note 5, "Goodwill and Other Intangible Assets"). Transfers into and out of the fair value hierarchy levels are assumed to be as of the end of the quarter in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values. There were no transfers between level 1 and 2 during the nine months ended September 30, 2012 and 2011.

## Fair Value Measurements

## Using Significant Unobservable Inputs

| (Dollars in millions)                  | Beginning<br>balance<br>July 1,<br>2012 | Included<br>in<br>earnings | OCI              | Sales | Settlements | Transfers<br>to/from<br>other<br>balance<br>sheet<br>line items | Transfers<br>into<br>Level 3 | Fair value<br>September<br>30,<br>2012 | Included<br>in<br>earnings<br>(held at<br>September<br>30,<br>2012) <sup>1</sup> |
|----------------------------------------|-----------------------------------------|----------------------------|------------------|-------|-------------|-----------------------------------------------------------------|------------------------------|----------------------------------------|----------------------------------------------------------------------------------|
| <b>Assets</b>                          |                                         |                            |                  |       |             |                                                                 |                              |                                        |                                                                                  |
| <b>Trading assets:</b>                 |                                         |                            |                  |       |             |                                                                 |                              |                                        |                                                                                  |
| MBS - private                          | \$1                                     | \$—                        | \$—              | \$—   | \$—         | \$—                                                             | \$—                          | \$1                                    | \$—                                                                              |
| CDO/CLO securities                     | 43                                      | 4                          | —                | —     | —           | —                                                               | —                            | 47                                     | 4                                                                                |
| ABS                                    | 5                                       | —                          | —                | —     | —           | —                                                               | —                            | 5                                      | —                                                                                |
| Total trading assets                   | 49                                      | 4                          | <sup>2</sup> —   | —     | —           | —                                                               | —                            | 53                                     | 4 <sup>2</sup>                                                                   |
| <b>Securities AFS:</b>                 |                                         |                            |                  |       |             |                                                                 |                              |                                        |                                                                                  |
| U.S. states and political subdivisions | 55                                      | —                          | 1                | —     | (5 )        | —                                                               | —                            | 51                                     | —                                                                                |
| MBS - private                          | 208                                     | (3 )                       | 21               | —     | (9 )        | —                                                               | —                            | 217                                    | (3 )                                                                             |
| ABS                                    | 17                                      | —                          | 1                | —     | —           | —                                                               | —                            | 18                                     | —                                                                                |
| Corporate and other debt securities    | 5                                       | —                          | —                | —     | —           | —                                                               | —                            | 5                                      | —                                                                                |
| Other equity securities                | 857                                     | —                          | —                | —     | (22 )       | —                                                               | —                            | 835                                    | —                                                                                |
| Total securities AFS                   | 1,142                                   | (3 ) <sup>3</sup>          | 23               | —     | (36 )       | —                                                               | —                            | 1,126                                  | (3 ) <sup>3</sup>                                                                |
| <b>LHFS:</b>                           |                                         |                            |                  |       |             |                                                                 |                              |                                        |                                                                                  |
| Residential loans                      | 2                                       | —                          | —                | (5 )  | —           | 2                                                               | 5                            | 4                                      | —                                                                                |
| LHFI                                   | 406                                     | 3                          | <sup>4</sup> —   | —     | (14 )       | (6 )                                                            | 1                            | 390                                    | —                                                                                |
| Other assets/(liabilities), net        | 101                                     | 331                        | <sup>5</sup> —   | —     | 3           | (269 )                                                          | —                            | 166                                    | —                                                                                |
| <b>Liabilities</b>                     |                                         |                            |                  |       |             |                                                                 |                              |                                        |                                                                                  |
| Derivative contracts                   | (349 )                                  | (305 ) <sup>3</sup>        | 355 <sup>6</sup> | —     | 299         | —                                                               | —                            | —                                      | —                                                                                |

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Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value Measurements  
Using Significant Unobservable Inputs

| (Dollars in millions)                  | Beginning balance January 1, 2012 | Included in earnings | OCI             | Purchases | Sales | Settlements | Transfers to/from other balance sheet line items | Transfers into Level 3 | Transfers out of Level 3 | Fair value September 30, 2012 | Included in earnings (held at September 30, 2012) <sup>1</sup> |
|----------------------------------------|-----------------------------------|----------------------|-----------------|-----------|-------|-------------|--------------------------------------------------|------------------------|--------------------------|-------------------------------|----------------------------------------------------------------|
| <b>Assets</b>                          |                                   |                      |                 |           |       |             |                                                  |                        |                          |                               |                                                                |
| <b>Trading assets:</b>                 |                                   |                      |                 |           |       |             |                                                  |                        |                          |                               |                                                                |
| MBS - private CDO/CLO securities       | \$1                               | \$—                  | \$—             | \$—       | \$—   | \$—         | \$—                                              | \$—                    | \$—                      | \$1                           | \$—                                                            |
| ABS                                    | 43                                | 4                    | —               | —         | —     | —           | —                                                | —                      | —                        | 47                            | 4                                                              |
| Total trading assets                   | 5                                 | —                    | —               | —         | —     | —           | —                                                | —                      | —                        | 5                             | —                                                              |
| Securities AFS:                        | 49                                | 4                    | <sup>2</sup> —  | —         | —     | —           | —                                                | —                      | —                        | 53                            | 4 <sup>2</sup>                                                 |
| U.S. states and political subdivisions | 58                                | —                    | —               | —         | —     | (7 )        | —                                                | —                      | —                        | 51                            | —                                                              |
| MBS - private ABS                      | 221                               | (7 )                 | 35              | —         | —     | (32 )       | —                                                | —                      | —                        | 217                           | (7 )                                                           |
| Corporate and other debt securities    | 16                                | —                    | 4               | —         | —     | (2 )        | —                                                | —                      | —                        | 18                            | —                                                              |
| Other equity securities                | 5                                 | —                    | —               | 2         | —     | (2 )        | —                                                | —                      | —                        | 5                             | —                                                              |
| Total securities AFS                   | 741                               | —                    | —               | 163       | —     | (69 )       | —                                                | —                      | —                        | 835                           | —                                                              |
| LHFS:                                  | 1,041                             | (7 )                 | <sup>3</sup> 39 | 165       | —     | (112 )      | —                                                | —                      | —                        | 1,126                         | (7 ) <sup>3</sup>                                              |
| Residential loans LHFI                 | 1                                 | —                    | —               | —         | (6 )  | —           | 4                                                | 10                     | (5 )                     | 4                             | —                                                              |
| Other assets/(liabilities), net        | 433                               | 4                    | <sup>4</sup> —  | —         | —     | (40 )       | (10 )                                            | 4                      | (1 )                     | 390                           | 1 <sup>4</sup>                                                 |
|                                        | 62                                | 769                  | <sup>5</sup> —  | (31 )     | —     | 25          | (659 )                                           | —                      | —                        | 166                           | —                                                              |

**Liabilities**

Derivative contracts (189 ) (304 ) <sup>3</sup> 194 <sup>6</sup> — — 299 — — — —

<sup>1</sup> Change in unrealized gains/(losses) included in earnings during the period related to financial assets still held at September 30, 2012.

<sup>2</sup> Amounts included in earnings are recorded in trading income.

<sup>3</sup> Amounts included in earnings are generally recorded in net securities gains, however, any related hedge ineffectiveness is recorded in trading income.

<sup>4</sup> Amounts are generally included in mortgage production related (loss)/income; however, the mark on certain fair value loans is included in trading income.

<sup>5</sup> Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related (loss)/income.

<sup>6</sup> Amount recorded in OCI was the effective portion of the cash flow hedges related to the Company's probable forecasted sale of its shares of Coke common stock. The Company ceased hedge accounting and terminated the forward contracts on the Coke Common stock during the third quarter of 2012, as discussed in Note 10, "Derivative Financial Instruments."



## Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value Measurements  
Using Significant Unobservable Inputs

| (Dollars in millions)                     | Beginning<br>balance<br>July 1,<br>2011 | Included<br>in<br>earnings | OCI            | Purchases | Sales | Settlements | Transfers<br>to/from<br>other<br>balance<br>sheet<br>line items | Transfers<br>into<br>Level 3 | Fair value<br>September<br>30,<br>2011 | Included<br>in<br>earnings<br>(held at<br>September<br>30,<br>2011) <sup>1</sup> |
|-------------------------------------------|-----------------------------------------|----------------------------|----------------|-----------|-------|-------------|-----------------------------------------------------------------|------------------------------|----------------------------------------|----------------------------------------------------------------------------------|
| <b>Assets</b>                             |                                         |                            |                |           |       |             |                                                                 |                              |                                        |                                                                                  |
| <b>Trading assets:</b>                    |                                         |                            |                |           |       |             |                                                                 |                              |                                        |                                                                                  |
| MBS - private                             | \$2                                     | \$—                        | \$—            | \$—       | \$—   | (\$1 )      | \$—                                                             | \$—                          | \$1                                    | \$—                                                                              |
| CDO/CLO securities                        | 42                                      | (6 )                       | —              | 6         | —     | —           | —                                                               | —                            | 42                                     | (6 )                                                                             |
| ABS                                       | 5                                       | —                          | —              | —         | —     | —           | —                                                               | —                            | 5                                      | —                                                                                |
| Equity securities                         | 13                                      | 1                          | —              | —         | —     | (7 )        | —                                                               | —                            | 7                                      | 1                                                                                |
| Total trading assets                      | 62                                      | (5 ) <sup>2</sup>          | —              | 6         | —     | (8 )        | —                                                               | —                            | 55                                     | (5 ) <sup>2</sup>                                                                |
| <b>Securities AFS:</b>                    |                                         |                            |                |           |       |             |                                                                 |                              |                                        |                                                                                  |
| U.S. states and<br>political subdivisions | 68                                      | 1                          | —              | —         | (4 )  | (3 )        | —                                                               | —                            | 62                                     | —                                                                                |
| MBS - private                             | 311                                     | —                          | (9 )           | —         | —     | (15 )       | —                                                               | —                            | 287                                    | —                                                                                |
| ABS                                       | 19                                      | —                          | (2 )           | —         | —     | (1 )        | —                                                               | —                            | 16                                     | —                                                                                |
| Corporate and other<br>debt securities    | 5                                       | —                          | —              | —         | —     | —           | —                                                               | —                            | 5                                      | —                                                                                |
| Other equity<br>securities                | 597                                     | —                          | —              | —         | —     | (34 )       | —                                                               | —                            | 563                                    | —                                                                                |
| Total securities AFS                      | 1,000                                   | 1 <sup>3</sup>             | (11 )          | —         | (4 )  | (53 )       | —                                                               | —                            | 933                                    | —                                                                                |
| <b>LHFS:</b>                              |                                         |                            |                |           |       |             |                                                                 |                              |                                        |                                                                                  |
| Residential loans                         | 3                                       | —                          | —              | —         | (1 )  | —           | (3 )                                                            | 3                            | 2                                      | —                                                                                |
| LHFI                                      | 449                                     | 16 <sup>6</sup>            | —              | —         | —     | (12 )       | (1 )                                                            | —                            | 452                                    | 14 <sup>6</sup>                                                                  |
| Other<br>assets/(liabilities), net        | 12                                      | 145 <sup>4</sup>           | —              | —         | —     | 1           | (95 )                                                           | —                            | 63                                     | —                                                                                |
| <b>Liabilities</b>                        |                                         |                            |                |           |       |             |                                                                 |                              |                                        |                                                                                  |
| Derivative contracts                      | (154 )                                  | —                          | 8 <sup>7</sup> | —         | —     | —           | —                                                               | —                            | (146 )                                 | —                                                                                |

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Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value Measurements  
Using Significant Unobservable Inputs

| (Dollars in millions)                  | Beginning balance, January 1, 2011 | Included in earnings | OCI               | Purchases      | Sales  | Settlements | Transfers to/from other sheet line items | Transfers into Level 3 | Transfers out of Level 3 | Fair value, September 30, 2011 | Included in earnings (held at September 30, 2011) <sup>1</sup> |
|----------------------------------------|------------------------------------|----------------------|-------------------|----------------|--------|-------------|------------------------------------------|------------------------|--------------------------|--------------------------------|----------------------------------------------------------------|
| <b>Assets</b>                          |                                    |                      |                   |                |        |             |                                          |                        |                          |                                |                                                                |
| <b>Trading assets:</b>                 |                                    |                      |                   |                |        |             |                                          |                        |                          |                                |                                                                |
| MBS - private CDO/CLO securities       | \$6                                | \$2                  | \$—               | \$—            | (\$5 ) | (\$2 )      | \$—                                      | \$—                    | \$—                      | \$1                            | \$—                                                            |
| ABS                                    | 53                                 | 25                   | —                 | 6              | (21 )  | (1 )        | (20 )                                    | —                      | —                        | 42                             | 11                                                             |
| Equity securities                      | 27                                 | 9                    | —                 | —              | (31 )  | —           | —                                        | —                      | —                        | 5                              | 2                                                              |
| Total trading assets                   | 123                                | 13                   | —                 | —              | —      | (129 )      | —                                        | —                      | —                        | 7                              | 1                                                              |
| Securities AFS:                        | 209                                | 49                   | <sup>2</sup> —    | 6              | (57 )  | (132 )      | (20 )                                    | —                      | —                        | 55                             | 14 <sup>2</sup>                                                |
| U.S. states and political subdivisions | 74                                 | 2                    | 1                 | —              | (4 )   | (11 )       | —                                        | —                      | —                        | 62                             | —                                                              |
| MBS - private ABS                      | 347                                | (3 )                 | —                 | —              | —      | (57 )       | —                                        | —                      | —                        | 287                            | (3 )                                                           |
| Corporate and other debt securities    | 20                                 | —                    | (1 )              | —              | —      | (3 )        | —                                        | —                      | —                        | 16                             | —                                                              |
| Other equity securities                | 5                                  | —                    | —                 | —              | —      | —           | —                                        | —                      | —                        | 5                              | —                                                              |
| Total securities AFS                   | 690                                | —                    | —                 | —              | —      | (127 )      | —                                        | —                      | —                        | 563                            | —                                                              |
| LHFS:                                  | 1,136                              | (1 )                 | <sup>3</sup> —    | —              | (4 )   | (198 )      | —                                        | —                      | —                        | 933                            | (3 ) <sup>3</sup>                                              |
| Residential loans                      | 2                                  | (1 )                 | <sup>4</sup> —    | —              | (15 )  | (1 )        | —                                        | 19                     | (2 )                     | 2                              | —                                                              |
| Corporate and other loans              | 5                                  | (1 )                 | <sup>5</sup> —    | —              | —      | —           | (4 )                                     | —                      | —                        | —                              | —                                                              |
| LHFI                                   | 492                                | 16                   | <sup>6</sup> —    | —              | —      | (46 )       | (10 )                                    | —                      | —                        | 452                            | 13 <sup>6</sup>                                                |
| Other assets/(liabilities), net        | (24 )                              | 229                  | <sup>4</sup> —    | —              | —      | 7           | (149 )                                   | —                      | —                        | 63                             | —                                                              |
| <b>Liabilities</b>                     |                                    |                      |                   |                |        |             |                                          |                        |                          |                                |                                                                |
| Derivative contracts                   | (145 )                             | 1                    | <sup>2</sup> (2 ) | <sup>7</sup> — | —      | —           | —                                        | —                      | —                        | (146 )                         | 1 <sup>2</sup>                                                 |

<sup>1</sup> Change in unrealized gains/(losses) included in earnings for the period related to financial assets still held at September 30, 2011.

<sup>2</sup> Amounts included in earnings are recorded in trading income.

<sup>3</sup> Amounts included in earnings are recorded in net securities gains.

<sup>4</sup> Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related (loss)/income.

<sup>5</sup> Amounts included in earnings are recorded in other noninterest (loss)/income.

<sup>6</sup> Amounts are generally included in mortgage production related (loss)/income, however, the mark on certain fair value loans is included in trading income.

<sup>7</sup> Amount recorded in OCI is the effective portion of the cash flow hedges related to the Company's probable forecasted sale of its shares of Coke common stock as discussed in Note 10, "Derivative Financial Instruments."



## Notes to Consolidated Financial Statements (Unaudited), continued

## Non-recurring Fair Value Measurements

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

| (Dollars in millions) | September 30, 2012 | Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation Allowance | Gains/(Losses) for the Three Months Ended September 30, 2012 | Gains/(Losses) for the Nine Months Ended September 30, 2012 |
|-----------------------|--------------------|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|---------------------|--------------------------------------------------------------|-------------------------------------------------------------|
| LHFS                  | \$1,258            | \$—                                                                        | \$457                                         | \$801                                     | \$—                 | (\$121 )                                                     | (\$121 )                                                    |
| LHFI                  | 52                 | —                                                                          | —                                             | 52                                        | —                   | —                                                            | —                                                           |
| OREO                  | 304                | —                                                                          | 242                                           | 62                                        | (126 )              | 7                                                            | (8 )                                                        |
| Affordable Housing    | 80                 | —                                                                          | —                                             | 80                                        | —                   | (96 )                                                        | (96 )                                                       |
| Other Assets          | 44                 | —                                                                          | 20                                            | 24                                        | (4 )                | (8 )                                                         | (6 )                                                        |

| (Dollars in millions) | December 31, 2011 | Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation Allowance | Gains/(Losses) for the Year Ended December 31, 2011 |
|-----------------------|-------------------|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|---------------------|-----------------------------------------------------|
| LHFS                  | \$212             | \$—                                                                        | \$108                                         | \$104                                     | \$—                 | \$—                                                 |
| LHFI                  | 72                | —                                                                          | —                                             | 72                                        | (7 )                | —                                                   |
| OREO                  | 479               | —                                                                          | 372                                           | 107                                       | (127 )              | (9 )                                                |
| Affordable Housing    | 324               | —                                                                          | —                                             | 324                                       | —                   | (10 )                                               |
| Other Assets          | 45                | —                                                                          | 24                                            | 21                                        | (20 )               | (17 )                                               |

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

## Loans Held for Sale

At September 30, 2012, level 2 LHFS consisted primarily of agency and non-agency residential mortgages, which were measured using observable collateral valuations, and level 3 consisted of commercial real estate loans valued using a broker's price opinion and student loans valued using third-party pricing. These loans were valued consistent with the methodology discussed in the Recurring Fair Value Measurement section of this footnote. At December 31, 2011, level 2 LHFS consisted primarily of conforming, residential mortgage loans, and corporate loans that are accounted for at LOCOM, and level 3 LHFS consisted of non-agency residential mortgages. The Company has been a participant in selling non-agency residential mortgages in the market, and therefore, has classified them as level 2 as of September 30, 2012. At December 31, 2011, level 3 LHFS also included leases held for sale which were valued using internal estimates which incorporated market data when available. Due to the lack of current market data for comparable leases, these assets were considered level 3.

During the nine months ended September 30, 2012, the Company transferred \$563 million of residential mortgage NPLs to LHFS, as the Company elected to actively market these loans for sale during the second and third quarters of 2012. These loans were predominantly reported at amortized cost prior to transferring to LHFS; however, a portion of the NPLs was carried at fair value. As a result of transferring the loans to LHFS, the Company recognized a \$171 million charge-off to reflect the loans' estimated market value. Of these transferred NPL loans, \$366 million were sold

at a gain of \$4 million during the nine months ended September 30, 2012, \$16 million remain in LHFS pending sale in the fourth quarter of 2012, \$7 million were returned to LHFI as they were no longer deemed marketable for sale and \$3 million were removed as a result of various loss mitigation events.

During the nine months ended September 30, 2012, the Company transferred \$1.0 billion of government guaranteed residential mortgages to LHFS, as the Company elected to actively market these loans for sale during the second and third quarter of 2012. These loans were reported at amortized cost prior to transferring to LHFS. During the second quarter, approximately \$500 million of these loans were sold, with the remainder pending sale in the fourth quarter. As a result of transferring the loans to LHFS, the Company recognized in noninterest income a \$77 million loss to reflect the loans' estimated market value.

## Notes to Consolidated Financial Statements (Unaudited), continued

During the nine months ended September 30, 2012, the Company transferred \$161 million of commercial real estate loans to LHFS, as the Company elected to actively market these loans for sale during the third and fourth quarters of 2012. These loans were reported at amortized cost prior to transferring to LHFS. As a result of transferring the loans to LHFS, the Company recognized a \$57 million charge-off to reflect the loans' estimated market value. At September 30, 2012, \$38 million remain in LHFS, pending sale in the fourth quarter of 2012.

During the nine months ended September 30, 2012, the Company transferred \$1.7 billion of current and delinquent student loans to LHFS, \$1.4 billion of which were transferred during the third quarter, and approximately \$300 million were sold during the second quarter. These loans were reported at amortized cost prior to transferring to LHFS. As a result of transferring the loans to LHFS, the Company recognized in noninterest income a \$15 million loss to reflect the loans' estimated market value. These loans were pending sale in the fourth quarter of 2012.

During the nine months ended September 30, 2011, the Company transferred \$57 million in NPLs that were previously designated as LHFI to LHFS in conjunction with the Company's election to actively market these loans for sale. These loans were predominantly reported at amortized cost prior to transferring to LHFS; however, a portion of the NPLs was carried at fair value. As a result of transferring the loans to LHFS, the Company recognized a \$10 million charge-off to reflect the loans' estimated market value. Of these transferred loans, \$34 million were sold at approximately their carrying value during the year ended December 31, 2011; the remaining \$13 million were returned to LHFI as they were no longer deemed marketable for sale.

#### Loans Held for Investment

LHFI consist predominantly of nonperforming commercial real estate loans for which specific reserves have been recorded. As these loans have been classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from internal estimates of the underlying collateral incorporating market data when available. Due to the lack of market data for similar assets, these loans are considered level 3. There are no gains/(losses) for the three and nine months ended September 30, 2012 as the charge-offs related to these loans are a component of the ALLL.

#### OREO

OREO is measured at the lower of cost or its fair value less costs to sell. Level 2 OREO consists primarily of residential homes, commercial properties, and vacant lots and land for which current property-specific appraisals, broker pricing opinions, or other market information is available. Level 3 OREO consists of lots and land for which initial valuations are based on property-specific appraisals or internal valuations. Due to the lower dollar value per property and geographic dispersion of the portfolio, these properties are re-evaluated using a pooled approach, which applies geographic factors to adjust carrying values for estimated further declines in value. Land and lots have proven to be the most challenging asset class to accurately value due in part to the low balance per property composition of the asset class. The pooled discount methodology provides a means to reserve for losses across a broad band of assets rather than rely on potentially unreliable asset-specific valuations. The pooled discount methodology is applied to land and lot assets that have valuations older than six months. The Company's independent internal valuation group determines the discounts to be applied and the discount percentages are segregated by state and by asset class (residential or commercial). The range of discount percentages applied to residential properties was 15% to 55% with a weighted average of 27%. The range of discount percentages applied to commercial properties was 10% to 35% with a weighted average of 29%. The discount percentages reflect the general market decline/increase in a particular state for a particular asset class and are determined by examining various valuation sources, including but not limited to, recent appraisals or sales prices of similar assets within each state.

#### Affordable Housing

The Company evaluates its consolidated affordable housing partnership investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment is recorded when the carrying amount of the partnership exceeds its fair value. Fair value measurements for affordable housing investments are derived from internal analyses using market assumptions when available. Significant assumptions utilized in these analyses include cash flows, market capitalization rates, and tax credit market pricing. During the third quarter the Company decided to dispose of certain consolidated affordable housing

partnership investments, and accordingly, recorded additional impairment to adjust the carrying values of these investments to estimated net realizable values obtained from a third party broker opinion. The broker opinion also includes assumptions around cash flows, market capitalization rates, and tax credit pricing. Due to the lack of comparable sales in the marketplace, these valuations are considered level 3. During the three and nine months ended September 30, 2012, the Company recognized \$96 million in impairment charges as a result of the Company's decision to actively market for sale \$0.2 billion in affordable housing investments. No impairment was recognized during the three and nine months ended September 30, 2011.

## Notes to Consolidated Financial Statements (Unaudited), continued

## Other Assets

Other assets consist of private equity investments, other repossessed assets, assets under operating leases where the Company is the lessor, and land held for sale.

Investments in private equity partnerships are valued based on the estimated expected remaining cash flows to be received from these assets discounted at a market rate that is commensurate with their risk profile. Based on the valuation methodology and the lack of observable inputs, these investments are considered level 3. During the nine months ended September 30, 2012, the Company initiated a disposition strategy for the majority of its investments in private equity partnerships, many of which were ultimately sold in July 2012 at prices approximating their carrying value, with substantially all of the remainder subject to sale agreements that are expected to settle in the first quarter of 2013 at prices approximating their carrying value.

Other repossessed assets consist of repossessed personal property that is measured at fair value less cost to sell. These assets are considered level 2 as their fair value is determined based on market comparables and broker opinions. During the three months ended September 30, 2012, the Company recognized \$1 million impairment charges. No impairment charges were recognized for the three months ended September 30, 2011. During the nine months ended September 30, 2012 and 2011, the Company recognized impairment charges of \$2 million and \$1 million, respectively, on these assets.

The Company monitors the fair value of assets under operating leases where the Company is the lessor, and recognizes impairment to the extent the carrying value is not recoverable and the fair value is less than its carrying value. Fair value is determined using collateral specific pricing digests, external appraisals, and recent sales data from industry equipment dealers. As market data for similar assets is available and used in the valuation, these assets are considered level 2. No impairment charges were recognized during the three months ended September 30, 2012, and the Company recognized impairment charges of \$2 million during the three months ended September 30, 2011. During the nine months ended September 30, 2012 and 2011, the Company recognized impairment charges of \$1 million and \$3 million, respectively, attributable to the fair value of various personal property under operating leases. Land held for sale is measured at fair value less cost to sell. The fair value of the land is determined using broker opinions, and based on the lack of observable inputs, the land is considered level 3. During the three and nine months ended September 30, 2012, the Company recognized a \$7 million impairment charge on the land. No impairment charges were recognized for the three and nine months ended September 30, 2011.

## Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments are as follows:

| (Dollars in millions)            | September 30, 2012 |            | Fair Value Measurement Using                                               |                                               |                                           |     |
|----------------------------------|--------------------|------------|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|-----|
|                                  | Carrying Amount    | Fair Value | Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |     |
| Financial assets                 |                    |            |                                                                            |                                               |                                           |     |
| Cash and cash equivalents        | \$5,607            | \$5,607    | \$5,607                                                                    | \$—                                           | \$—                                       | (a) |
| Trading assets                   | 6,381              | 6,381      | 411                                                                        | 5,917                                         | 53                                        | (b) |
| Securities AFS                   | 21,467             | 21,467     | 365                                                                        | 19,976                                        | 1,126                                     | (b) |
| LHFS                             | 5,205              | 5,212      | —                                                                          | 3,785                                         | 1,427                                     | (c) |
| LHFI, net                        | 119,578            | 116,436    | —                                                                          | 4,443                                         | 111,993                                   | (d) |
| Financial liabilities            |                    |            |                                                                            |                                               |                                           |     |
| Consumer and commercial deposits | \$124,898          | \$125,213  | \$—                                                                        | \$125,213                                     | \$—                                       | (e) |
| Brokered time deposits           | 2,198              | 2,229      | —                                                                          | 2,229                                         | —                                         | (f) |

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|                       |        |        |     |        |     |     |
|-----------------------|--------|--------|-----|--------|-----|-----|
| Foreign deposits      | 130    | 130    | —   | 130    | —   | (f) |
| Short-term borrowings | 8,821  | 8,821  | —   | 8,821  | —   | (f) |
| Long-term debt        | 10,765 | 10,771 | —   | 10,224 | 547 | (f) |
| Trading liabilities   | 1,458  | 1,458  | 484 | 974    | —   | (b) |

## Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)            | December 31, 2011 |            |     |
|----------------------------------|-------------------|------------|-----|
|                                  | Carrying Amount   | Fair Value |     |
| Financial assets                 |                   |            |     |
| Cash and cash equivalents        | \$4,509           | \$4,509    | (a) |
| Trading assets                   | 6,279             | 6,279      | (b) |
| Securities AFS                   | 28,117            | 28,117     | (b) |
| LHFS                             | 2,353             | 2,355      | (c) |
| LHFI, net                        | 120,038           | 115,685    | (d) |
| Financial liabilities            |                   |            |     |
| Consumer and commercial deposits | \$125,611         | \$125,963  | (e) |
| Brokered time deposits           | 2,281             | 2,289      | (f) |
| Foreign deposits                 | 30                | 30         | (f) |
| Short-term borrowings            | 11,466            | 11,466     | (f) |
| Long-term debt                   | 10,908            | 10,515     | (f) |
| Trading liabilities              | 1,806             | 1,806      | (b) |

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

- (a) Cash and cash equivalents are valued at their carrying amounts reported in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.
- Securities AFS, trading assets, and trading liabilities that are classified as level 1 are valued based on quoted market prices. For those instruments classified as level 2 or 3, refer to the respective valuation discussions within this footnote.
- LHFS are generally valued based on observable current market prices or, if quoted market prices are not available, on quoted market prices of similar instruments. Refer to the LHFS section within this footnote for further discussion of the LHFS carried at fair value. In instances when significant valuation assumptions are not readily observable in the market, instruments are valued based on the best available data to approximate fair value. This data may be internally-developed and considers risk premiums that a market participant would require under then-current market conditions.
- LHFI fair values are based on a hypothetical exit price, which does not represent the estimated intrinsic value of the loan if held for investment. The assumptions used are expected to approximate those that a market participant purchasing the loans would use to value the loans, including a market risk premium and liquidity discount. Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid, or for certain loan types, nonexistent, requires significant judgment. Therefore, the estimated fair value can vary significantly depending on a market participant's ultimate considerations and assumptions. The final value yields a market participant's expected return on investment that is indicative of the current market conditions, but it does not take into consideration the Company's estimated value from continuing to hold these loans or its lack of willingness to transact at these estimated values. Level 2 LHFI consist of agency mortgage loans for which the Company has obtained a guarantee from Fannie Mae in the form of a long term standby commitment. These agency mortgage loans are priced using current market pricing for similar securities adjusted for servicing value and market and credit risk. Additionally, the Company classifies widely syndicated commercial leveraged loans as level 2 in the fair value hierarchy as the loans, or similar loans, are traded in an active market and pricing is readily available from a third-party pricing service.

The Company estimated fair value for the remaining LHFI based on estimated future cash flows discounted, initially, at current origination rates for loans with similar terms and credit quality, which derived an estimated value of 101% and 100% on the loan portfolio's net carrying value as of September 30, 2012 and December 31, 2011, respectively. The value derived from origination rates likely does not represent an exit price; therefore, an incremental market risk and liquidity discount was subtracted from the initial value as of September 30, 2012 and December 31, 2011,

respectively. The discounted value is a function of a market participant's required yield in the current environment and is not a reflection of the expected cumulative losses on the loans. Loan prepayments are used to adjust future cash flows based on historical experience and prepayment model forecasts. The value of related accrued interest on loans approximates fair value; however, it is not included in the carrying amount or fair value of loans. The value of long-term customer relationships is not permitted under current U.S. GAAP to be included in the estimated fair value.

Deposit liabilities with no defined maturity such as DDAs, NOW/money market accounts, and savings accounts have a fair value equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair (e) values for CDs are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities. The assumptions used in the discounted cash flow analysis are expected to approximate those that

Notes to Consolidated Financial Statements (Unaudited), continued

market participants would use in valuing deposits. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Fair values for foreign deposits, certain brokered time deposits, short-term borrowings, and certain long-term debt are based on quoted market prices for similar instruments or estimated using discounted cash flow analysis and the Company's current incremental borrowing rates for similar types of instruments. For brokered time deposits and long-term debt that the Company carries at fair value, refer to the respective valuation sections within this footnote. (f) For Level 3 debt, the terms are unique in nature or there are otherwise no similar instruments than can be used to value the instrument without using significant unobservable assumptions. In this situation, we look at current borrowing rates along with the collateral levels that secure the debt when determining an appropriate fair value adjustment.

Unfunded loan commitments and letters of credit are not included in the table above. At September 30, 2012, the Company had \$42 billion of unfunded commercial loan commitments and letters of credit. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related unfunded commitments reserve which was a combined \$51 million at September 30, 2012. No active trading market exists for these instruments, and the estimated fair value does not include any value associated with the borrower relationship. The Company does not estimate the fair values of consumer unfunded lending commitments which can generally be canceled by providing notice to the borrower.

#### NOTE 13 – CONTINGENCIES

##### Litigation and Regulatory Matters

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

For a limited number of legal matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses. For other matters for which a loss is probable or reasonably possible, such an estimate is not possible. For those matters where a loss is both estimable and reasonably possible, management currently estimates the aggregate range of reasonably possible losses as \$0 to \$300 million in excess of the accrued liability, if any, related to those matters. This estimated range of reasonably possible losses represents the estimated possible losses over the life of such legal matters, which may span a currently indeterminable number of years, and is based on information currently available as of September 30, 2012. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range; therefore, this estimated range does not represent the Company's maximum loss exposure. Based on current knowledge, it is the opinion of management that liabilities arising from legal claims in excess of the amounts currently accrued, if any, will not have a material impact to the Company's financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters, and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results or cash flows for any given reporting period.

The following is a description of certain litigation and regulatory matters.

Interchange and Related Litigation

Card Association Antitrust Litigation

The Company is a defendant, along with Visa U.S.A. and MasterCard International, as well as several other banks, in one of several antitrust lawsuits challenging their practices. For a discussion regarding the Company's involvement in this litigation matter, refer to Note 11, "Reinsurance Arrangements and Guarantees."

In re ATM Fee Antitrust Litigation

The Company is a defendant in a number of antitrust actions that have been consolidated in federal court in San Francisco, California under the name In re ATM Fee Antitrust Litigation, Master File No. C04-2676 CR13. In these actions, Plaintiffs, on behalf of a class, assert that Concord EFS and a number of financial institutions have unlawfully fixed the interchange fee for participants in

## Notes to Consolidated Financial Statements (Unaudited), continued

the Star ATM Network. Plaintiffs claim that Defendants' conduct is illegal under Section 1 of the Sherman Act. Plaintiffs initially asserted the Defendants' conduct was illegal per se. In August 2007, Concord and the bank defendants filed motions for summary judgment on Plaintiffs' per se claim. In March 2008, the Court granted the motions on the ground that Defendants' conduct in setting an interchange fee must be analyzed under the rule of reason. The Court certified this question for interlocutory appeal, and the Court of Appeals for the Ninth Circuit rejected Plaintiffs' petition for permission to appeal on August 13, 2008. Plaintiffs subsequently filed a Second Amended Complaint in which they asserted a rule of reason claim. This complaint was dismissed by the Court as well, but Plaintiffs were given leave to file another amended complaint. Plaintiffs filed yet another complaint and Defendants moved to dismiss the same. The Court granted this motion in part by dismissing one of the Plaintiffs two claims, but denied the motion as to one claim. On September 16, 2010, the Court granted the Defendants' motion for summary judgment as to the remaining claim on the grounds that Plaintiffs lack standing to assert that claim. Plaintiffs filed an appeal of this decision with the Ninth Circuit Court of Appeals and the Ninth Circuit recently affirmed the District Court's decision. Plaintiffs have filed a motion for rehearing en banc.

## Overdraft Fee Cases

The Company has been named as a defendant in three putative class actions relating to the imposition of overdraft fees on customer accounts. The first such case, *Buffington et al. v. SunTrust Banks, Inc. et al.* was filed in Fulton County Superior Court on May 6, 2009. This action was removed to the U.S. District Court for the Northern District of Georgia, Atlanta Division on June 10, 2009, and was transferred to the U.S. District Court for the Southern District of Florida for inclusion in Multi-District Litigation Case No. 2036 on December 1, 2009. Plaintiffs assert claims for breach of contract, conversion, unconscionability, and unjust enrichment for alleged injuries they suffered as a result of the method of posting order used by the Company, which allegedly resulted in overdraft fees being assessed to their joint checking account, and purport to bring their action on behalf of a putative class of "all SunTrust Bank account holders who incurred an overdraft charge despite their account having a sufficient balance of actual funds to cover all debits that have been submitted to the bank for payment," as well as "all SunTrust account holders who incurred one or more overdraft charges based on SunTrust Bank's reordering of charges." Plaintiffs seek restitution, damages, expenses of litigation, attorneys' fees, and other relief deemed equitable by the Court. The Company filed a Motion to Dismiss and Motion to Compel Arbitration and both motions were denied. The denial of the motion to compel arbitration was appealed to the Eleventh Circuit Court of Appeals. The Eleventh Circuit remanded this matter back to the District Court with instructions to the District Court to review its prior ruling in light of the Supreme Court's decision in *AT&T Mobility LLC v. Concepcion*. The District Court then denied SunTrust's motion to compel arbitration for different reasons. SunTrust appealed this decision to the Eleventh Circuit and, on March 1, 2012, the Eleventh Circuit reversed the District Court's decision and ordered that SunTrust's Motion to Compel Arbitration be granted. Plaintiffs filed a petition for rehearing or rehearing en banc, which was denied. Plaintiffs have filed a petition for a writ of certiorari to the U.S. Supreme Court.

The second of these cases, *Bickerstaff v. SunTrust Bank*, was filed in the Fulton County State Court on July 12, 2010, and an amended complaint was filed on August 9, 2010. Plaintiff asserts that all overdraft fees charged to his account which related to debit card and ATM transactions are actually interest charges and therefore subject to the usury laws of Georgia. Plaintiff has brought claims for violations of civil and criminal usury laws, conversion, and money had and received, and purports to bring the action on behalf of all Georgia citizens who have incurred such overdraft fees within the last four years where the overdraft fee resulted in an interest rate being charged in excess of the usury rate. SunTrust has filed a motion to compel arbitration. On March 16, 2012, the Court entered an order holding that SunTrust's arbitration provision is enforceable but that the named plaintiff in the case had opted out of that provision pursuant to its terms. The court explicitly stated that it was not ruling at that time on the question of whether the named plaintiff could proceed with the case as a class rather than as an individual action. SunTrust has filed an appeal of this decision.

The third of these cases, *Byrd v. SunTrust Bank*, was filed on April 23, 2012, in the United States District Court for the Western District of Tennessee. This case is substantially similar to the *Bickerstaff* matter described above. SunTrust has filed a Motion to Compel Arbitration.

SunTrust Mortgage, Inc. v. United Guaranty Residential Insurance Company of North Carolina  
STM filed a suit in the Eastern District of Virginia in July of 2009 against United Guaranty Residential Insurance Company of North Carolina (“UGRIC”) seeking payment involving denied mortgage insurance claims regarding second lien mortgages. STM’s claims are in two counts. Count One involves a common reason for denial of claims by UGRIC for a group of loans. Count Two involves a group of loans with individualized reasons for the claim denials asserted by UGRIC. The two counts filed by STM have been bifurcated for trial purposes. UGRIC has counterclaimed for declaratory relief involving interpretation of the insurance policy involving certain caps on the amount of claims covered, whether ongoing premium obligations exist after any caps are met, and the potential to accelerate any premiums that may be owed if UGRIC prevails on its counterclaim. UGRIC later disclaimed its argument for acceleration of premiums. The Court granted STM’s motion for summary judgment as to liability on Count One and, after a trial on damages, awarded STM \$34 million along with \$6 million in prejudgment interest on August 19, 2011. Count Two has been stayed pending final resolution of Count One. On September 13, 2011, the Court added \$5 million to the judgment

Notes to Consolidated Financial Statements (Unaudited), continued

involving STM's claims for fees on certain issues. On UGRIC's counterclaim, the Court agreed that UGRIC's interpretation was correct regarding STM's continued obligations to pay premiums in the future after coverage caps are met. However, on August 19, 2011, the Court found for STM on its affirmative defense that UGRIC can no longer enforce the contract due to its prior breaches, and consequently, denied UGRIC's request for a declaration that it was entitled to continue to collect premiums after caps are met. UGRIC has appealed the Court's rulings to the U.S. Fourth Circuit Court of Appeals. Oral argument on this appeal was held on October 24, 2012 and the Court's ruling is pending.

Lehman Brothers Holdings, Inc. Litigation

Beginning in October 2008, STRH, along with other underwriters and individuals, were named as defendants in several individual and putative class action complaints filed in the U.S. District Court for the Southern District of New York and state and federal courts in Arkansas, California, Texas and Washington. Plaintiffs allege violations of Sections 11 and 12 of the Securities Act of 1933 for allegedly false and misleading disclosures in connection with various debt and preferred stock offerings of Lehman Brothers Holdings, Inc. ("Lehman Brothers") and seek unspecified damages. All cases have now been transferred for coordination to the multi-district litigation captioned *In re Lehman Brothers Equity/Debt Securities Litigation* pending in the U.S. District Court for the Southern District of New York. Defendants filed a motion to dismiss all claims asserted in the class action. On July 27, 2011, the District Court granted in part and denied in part the motion to dismiss the class claims against STRH and the other underwriter defendants. A settlement with the class plaintiffs was approved by the Court on December 15, 2011. The class notice and opt-out process is complete and the class settlement approval process has been completed. A number of individual lawsuits and smaller putative class actions remain pending and will move forward, each on its own schedule. Motions to dismiss are pending in each of these cases.

SunTrust Securities Class Action Litigation

Beginning in May 2009, the Company, STRH, SunTrust Capital IX, officers and directors of the Company, and others were named in three putative class actions arising out of the offer and sale of approximately \$690 million of SunTrust Capital IX 7.875% Trust Preferred Securities ("TRUPs") of SunTrust Banks, Inc. The complaints alleged, among other things, that the relevant registration statement and accompanying prospectus misrepresented or omitted material facts regarding the Company's allowance for loan and lease loss reserves, the Company's capital position, and its internal risk controls. Plaintiffs seek to recover alleged losses in connection with their investment in the TRUPs or to rescind their purchases of the TRUPs. These cases were consolidated under the caption *Belmont Holdings Corp., et al., v. SunTrust Banks, Inc., et al.*, in the U.S. District Court for the Northern District of Georgia, Atlanta Division, and on November 30, 2009, a consolidated amended complaint was filed. On January 29, 2010, Defendants filed a motion to dismiss the consolidated amended complaint. This motion was granted, with leave to amend, on September 10, 2010. On October 8, 2010, the lead plaintiff filed an amended complaint in an attempt to address the pleading deficiencies identified in the Court's dismissal decision. The Company filed a motion to dismiss the amended complaint on March 21, 2011. The District Court denied the motion to dismiss as to Plaintiff's claims that the Company misrepresented the adequacy of its loan loss reserves for 2007 but dismissed all other claims against the Company and limited discovery in the initial stages of the case to the question of SunTrust's subjective belief as to the adequacy of those reserves at the time of the offering. SunTrust subsequently filed a motion for reconsideration of this decision and a motion to stay discovery pending resolution of that motion. The Court granted the motion to stay, granted the motion for reconsideration, and dismissed the case in its entirety. The deadline for appealing these decisions has passed and no appeal was filed.

SunTrust Shareholder Derivative Litigation

On September 9, 2011, the Company and several current and former executives and members of the Board were named in a shareholder derivative action filed in the Superior Court of Fulton County, Georgia, *Sharon Benfield v. James M. Wells, III, et al.*, and on December 19, 2011, the Company and several current and former executives and members of the Board were named as defendants in a separate shareholder derivative action filed in the U.S. District

Court for the Northern District of Georgia, Edward Mannato v. James M. Wells, III, et al. The plaintiffs in both of these lawsuits purport to bring their claims on behalf of and for the benefit of the Company. Generally, these lawsuits are substantially overlapping and make very broad allegations of mis-management of, and mis-representations about, the Company's exposure to loan losses and the residential real estate market leading up to and during the recent real estate and credit market crises. In both cases, the plaintiffs assert causes of action for breach of fiduciary duty, waste of corporate assets, and unjust enrichment. The Mannato lawsuit arises out of a shareholder demand made of SunTrust in March 2008 that was the subject of an investigation conducted at the direction of a committee of independent members of the Company's Board. This committee concluded that no wrongdoing had occurred and that the interests of the Company's shareholders would not be served by pursuing the claims alleged in the plaintiff's demand. The Benfield lawsuit arises out of a shareholder demand made of SunTrust in February 2011 that was the subject of an investigation conducted at the direction of the same Board committee. This committee recently concluded that no wrongdoing had occurred and that the interests of the Company's shareholders would not be served by pursuing the claims alleged in the plaintiff's demand. On October 29, 2012, the Court dismissed all claims in the Benfield case. A motion to dismiss is pending in the Mannato case.

Notes to Consolidated Financial Statements (Unaudited), continued

Colonial BancGroup Securities Litigation

Beginning in July 2009, STRH, certain other underwriters, The Colonial BancGroup, Inc. (“Colonial BancGroup”) and certain officers and directors of Colonial BancGroup were named as defendants in a putative class action filed in the U.S. District Court for the Middle District of Alabama, Northern District entitled *In re Colonial BancGroup, Inc. Securities Litigation*. The complaint was brought by purchasers of certain debt and equity securities of Colonial BancGroup and seeks unspecified damages. Plaintiffs allege violations of Sections 11 and 12 of the Securities Act of 1933 due to allegedly false and misleading disclosures in the relevant registration statement and prospectus relating to Colonial BancGroup’s goodwill impairment, mortgage underwriting standards, and credit quality. On August 28, 2009, The Colonial BancGroup filed for bankruptcy. The defendants’ motion to dismiss was denied in May 2010, but the Court subsequently has ordered Plaintiffs to file an amended complaint. This amended complaint has been filed and the defendants have filed a motion to dismiss.

U.S. Department of Justice Investigation

Since late 2009, STM has been cooperating with the United States Department of Justice (“USDOJ”) in connection with an investigation relating to alleged violations of the Equal Credit Opportunity Act and the Fair Housing Act. USDOJ’s allegations in this matter relate solely to prior periods and to alleged practices of STM that no longer are in effect. The parties have reached an agreement as to the terms of a Consent Order in this matter and USDOJ filed a lawsuit in May 2012, and contemporaneously submitted this Consent Order to the Court, in the United States District Court for the Eastern District of Virginia. This agreement was approved by the Court on September 14, 2012.

Consent Order with the Federal Reserve

On April 13, 2011, SunTrust Banks, Inc., SunTrust Bank, and STM entered into a Consent Order with the Federal Reserve in which SunTrust Banks, Inc., SunTrust Bank, and STM agreed to strengthen oversight of and improve risk management, internal audit, and compliance programs concerning the residential mortgage loan servicing, loss mitigation, and foreclosure activities of STM. Under the terms of the Consent Order, SunTrust Bank and STM agreed, among other things, to: (a) strengthen the coordination of communications between borrowers and STM concerning ongoing loss mitigation and foreclosure activities; (b) submit a plan to enhance processes for oversight and management of third party vendors used in connection with residential mortgage servicing, loss mitigation and foreclosure activities; (c) enhance and strengthen the enterprise-wide compliance program with respect to oversight of residential mortgage loan servicing, loss mitigation and foreclosure activities; (d) ensure appropriate oversight of STM’s activities with respect to Mortgage Electronic Registration System; (e) review and remediate, if necessary, STM’s management information systems for its residential mortgage loan servicing, loss mitigation, and foreclosure activities; (f) improve the training of STM officers and staff concerning applicable law, supervisory guidance and internal procedures concerning residential mortgage loan servicing, loss mitigation and foreclosure activities, including the single point of contact for foreclosure and loss mitigation; (g) retain an independent consultant to conduct a comprehensive assessment of STM’s risks, including, but not limited to, operational, compliance, transaction, legal, and reputational risks particularly in the areas of residential mortgage loan servicing, loss mitigation and foreclosure; (h) enhance and strengthen the enterprise-wide risk management program with respect to oversight of residential mortgage loan servicing, loss mitigation and foreclosure activities; and (i) enhance and strengthen the internal audit program with respect to residential loan servicing, loss mitigation and foreclosure activities. The comprehensive third party risk assessment was completed in August 2011, and the Company continues implementation of recommended enhancements. All of the action plans designed to complete the above enhancements were accepted by the Federal Reserve and are currently in implementation. The Company is required to engage an independent third party consultant approved by the Federal Reserve to prepare a validation report with respect to compliance with the aspects of the Consent Order referenced above. The Company currently anticipates that the independent third party consultant will commence work in the fourth quarter of 2012 and complete its review and report to the Federal Reserve in the first half of 2013.

Under the terms of the Consent Order, SunTrust Bank and STM also agreed to retain an independent foreclosure consultant approved by the Federal Reserve to conduct a review of residential foreclosure actions pending at any time during the period from January 1, 2009 through December 31, 2010, for loans serviced by STM, to identify any errors, misrepresentations, or deficiencies, determine whether any instances so identified resulted in financial injury, and prepare a written report detailing the findings. As part of the independent foreclosure review, borrowers who had a residential foreclosure action pending during this two year review period have been solicited through advertising and direct mailings to request a review by the independent consultant of their case if they believe they incurred a financial injury as a result of errors, misrepresentations, or other deficiencies in the foreclosure process. An agent retained by a consortium of affected servicers, including STM, has completed several solicitations of subject borrowers seeking participation in the review process, and federal regulators have extended the deadline for submitting requests for review to December 31, 2012. Reviews by the independent foreclosure consultant are currently underway. Upon completion of review procedures, the independent foreclosure consultant will submit findings regarding borrowers deemed to have been harmed, and the Company will provide financial and other remediation pursuant to the terms of a Financial Remediation Framework (described below).

Notes to Consolidated Financial Statements (Unaudited), continued

Redacted versions of the action plans and the Company's engagement letter with the independent foreclosure consultant are available on the Federal Reserve's website. The full text of the Consent Order is available on the Federal Reserve's website and was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The Company completed an internal review of STM's residential foreclosure processes, and as a result of the review, steps have been taken and continue to be taken, to improve upon those processes. As discussed above, the Consent Order requires the Company to retain an independent foreclosure consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010. The Company is currently incurring the costs associated with the Consent Order-required foreclosure file review. Until the independent foreclosure review has been finalized, the total costs associated with the review process are uncertain; however, costs may increase from current levels. On June 21, 2012, the OCC and the Federal Reserve released guidance that will be used in determining the compensation or other remedy that borrowers will receive for financial injury identified during the independent foreclosure review. Under the guidance, remediation for injuries may include lump-sum payments, suspension or rescission of a foreclosure, a loan modification or other loss mitigation assistance, correction of credit reports, or correction of deficiency amounts and records. For each instance requiring financial remediation, lump-sum payments can range from \$500 to, in the most egregious cases, \$125,000 plus an amount equal to the equity in the home. As a result of the Federal Reserve's review of the Company's residential mortgage loan servicing and foreclosure processing practices that preceded the Consent Order, the Federal Reserve announced that it would impose a civil money penalty. At this time, no such penalty has been imposed, and the amount and terms of such a potential penalty have not been finally determined. The Company's accrual for expected costs related to a potential settlement with the U.S. and the States Attorneys General regarding certain mortgage servicing claims (which is discussed below at "United States and States Attorneys General Mortgage Servicing Claims") includes the expected incremental costs (if any) of a civil money penalty relating to the Consent Order.

#### A Financial Guaranty Insurance Company

The Company is engaged in settlement negotiations with a financial guaranty insurance company relating to second lien mortgage loan repurchase claims for a securitization that the financial guaranty insurance company guaranteed under an insurance policy. The financial guaranty insurance company's allegations in this matter generally are that it has paid claims as a result of defaults in the underlying loans and that some of these losses are the result of breaches of representations and warranties made in the documents governing the transaction in question.

#### Putative ERISA Class Actions

##### Company Stock Class Action

Beginning in July 2008, the Company, officers and directors of the Company, and certain other Company employees were named in a putative class action alleging that they breached their fiduciary duties under ERISA by offering the Company's common stock as an investment option in the SunTrust Banks, Inc. 401(k) Plan (the "Plan"). The plaintiffs purport to represent all current and former Plan participants who held the Company stock in their Plan accounts from May 2007 to the present and seek to recover alleged losses these participants supposedly incurred as a result of their investment in Company stock.

The Company Stock Class Action was originally filed in the U.S. District Court for the Southern District of Florida, but was transferred to the U.S. District Court for the Northern District of Georgia, Atlanta Division, (the "District Court") in November 2008.

On October 26, 2009, an amended complaint was filed. On December 9, 2009, defendants filed a motion to dismiss the amended complaint. On October 25, 2010, the District Court granted in part and denied in part defendants' motion to dismiss the amended complaint. Defendants and plaintiffs filed separate motions for the District Court to certify its October 25, 2010 order for immediate interlocutory appeal. On January 3, 2011, the District Court granted both motions.

On January 13, 2011, defendants and plaintiffs filed separate petitions seeking permission to pursue interlocutory appeals with the U.S. Court of Appeals for the Eleventh Circuit ("the Circuit Court"). On April 14, 2011, the Circuit

Court granted defendants and plaintiffs permission to pursue interlocutory review in separate appeals. The Circuit Court subsequently stayed these appeals pending decision of a separate appeal involving The Home Depot in which substantially similar issues are presented. On May 8, 2012, the Circuit Court decided this appeal in favor of The Home Depot. We await further direction from the Circuit Court.

#### Mutual Funds Class Action

On March 11, 2011, the Company, officers and directors of the Company, and certain other Company employees were named in a putative class action alleging that they breached their fiduciary duties under ERISA by offering certain STI Classic Mutual Funds as investment options in the Plan. The plaintiff purports to represent all current and former Plan participants who held the STI Classic Mutual Funds in their Plan accounts from April 2002 through December 2010 and seeks to recover alleged losses these Plan participants supposedly incurred as a result of their investment in the STI Classic Mutual Funds. On October 30, 2012, the Court dismissed all claims in this action.

Notes to Consolidated Financial Statements (Unaudited), continued

The Affiliated Funds Class Action is pending in the U.S. District Court for the Northern District of Georgia, Atlanta Division (the "District Court"). On June 6, 2011, plaintiff filed an amended complaint, and, on June 20, 2011, defendants filed a motion to dismiss the amended complaint. On March 12, 2012, the Court granted in part and denied in part the motion to dismiss. The Company believes that based on the Court's Order, the Court lacks subject matter jurisdiction over the plaintiff's remaining claims and has filed a motion to dismiss the remainder of the case on this ground.

*Metropolitan Bank Group, Inc. v. SunTrust Robinson Humphrey, Inc.*

On March 8, 2011, STRH was served with a notice of claim initiating a FINRA arbitration against the Company and one employee by Metropolitan Bank Group, Inc. In this case, the plaintiff alleges that it purchased approximately \$80 million in preferred securities through STRH on which it suffered significant losses. The plaintiff alleges that it subsequently was informed by its primary regulator that it was not permitted to own certain of these securities and that STRH was or should have been aware of that fact. The plaintiff also alleges that certain of the securities in question were not suitable for it because they were too risky. The plaintiff has asserted causes of action for negligence, breach of fiduciary duty, and violation of FINRA rules. The parties settled this dispute prior to the arbitration hearing.

**SunTrust Mortgage Reinsurance Class Actions**

STM and Twin Rivers Insurance Company ("Twin Rivers") have been named as defendants in two putative class actions alleging that the companies entered into illegal "captive reinsurance" arrangements with private mortgage insurers. More specifically, plaintiffs allege that SunTrust's selection of private mortgage insurers who agree to reinsure loans referred to them by SunTrust with Twin Rivers results in illegal "kickbacks" in the form of the insurance premiums paid to Twin Rivers. Plaintiffs contend that this arrangement violates the Real Estate Settlement Procedures Act ("RESPA") and results in unjust enrichment to the detriment of borrowers. The first of these cases, *Thurmond, Christopher, et al. v. SunTrust Banks, Inc. et al.*, was filed in February 2011 in the U.S. District Court for the Eastern District of Pennsylvania. This case was stayed by the Court pending the outcome of *Edwards v. First American Financial Corporation*, a captive reinsurance case that was pending before the U.S. Supreme Court at the time. The second of these cases, *Acosta, Lemuel & Maria Ventrella et al. v. SunTrust Bank, SunTrust Mortgage, Inc., et al.*, was filed in the U.S. District Court for the Central District of California in December 2011. This case was stayed pending a decision in the *Edwards* case also. In June 2012, the U.S. Supreme Court withdrew its grant of cert. in *Edwards* and, as a result, the stays in these cases were lifted. Motions to dismiss are pending in both cases.

**United States and States Attorneys General Mortgage Servicing Claims**

In January, 2012, the Company commenced discussions related to a mortgage servicing settlement with the U.S., through the Department of Justice, and Attorneys General for several states regarding various potential claims relating to the Company's mortgage servicing activities. While these discussions are in the preliminary stages and the Company has not reached any agreement with such parties, the Company estimates that the cost of resolving these and potential similar claims, including the costs of such a settlement, borrower-specific actions, and/or legal matters to defend such claims if they are not settled, will be approximately \$120 million, pre-tax, (\$81 million, after-tax), and the Company accrued this expense in its 2011 financial results.

**False Claim Act Litigation**

SunTrust Mortgage is a defendant in a *qui tam* lawsuit brought in the U.S. District Court for the Northern District of Georgia under the federal False Claims Act, *United States ex rel. Bibby & Donnelly v. Wells Fargo, et al.* This lawsuit originally was filed under seal, but the second amended complaint was unsealed by the District Court in October 2011. The plaintiffs, who allege that they are officers of a mortgage broker, allege that numerous mortgage originators, including SunTrust Mortgage, made false statements to the U.S. Department of Veterans Affairs in order to obtain loan guarantees by the VA under its Interest Rate Reduction Refinancing Loans ("IRRRL") program. Plaintiffs allege that the mortgage originators charged fees in connection with these loans that were not permitted under the IRRRL program and made false statements to the VA to the effect that the loans complied with all

applicable regulations or program requirements. According to Plaintiffs, by doing so, the originators caused the VA to pay, among other costs, amounts to honor the loan guarantees to which they were not entitled. Plaintiffs have sued on their own behalf and on behalf of the U.S., and seek, among other things, unspecified damages equal to the loss that SunTrust Mortgage allegedly caused the U.S. (trebled under the False Claims Act), statutory civil penalties of between \$5,500 and \$11,000 per violation, injunctive relief, and attorneys' fees. To date, the U.S. has not joined in the prosecution of this action. SunTrust Mortgage and other defendants have filed motions to dismiss.

#### HUD Investigation

On April 25, 2012, the Company was informed of the commencement of an investigation by the HUD relating generally to origination practices for FHA loans. The Company is cooperating with the investigation.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 14 - BUSINESS SEGMENT REPORTING

The Company has three business segments used to measure business activity: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking, with the remainder in Corporate Other. The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. The segment structure was revised during the first quarter of 2012 from the six segments the Company utilized during 2011. The revised segment structure was in conjunction with organizational changes made throughout the Company that were announced during the fourth quarter of 2011 and implemented in the first quarter of 2012. The following is a description of the new segments and their composition.

The Consumer Banking and Private Wealth Management segment is made up of two primary businesses: Consumer Banking and Private Wealth Management.

Consumer Banking provides services to consumers through an extensive network of traditional and in-store branches, ATMs, the internet ([www.suntrust.com](http://www.suntrust.com)), and telephone (1-800-SUNTRUST). Financial products and services offered to consumers include consumer deposits, home equity lines, consumer lines, indirect auto, student lending, bank card, and other consumer loan and fee-based products. Consumer Banking also serves as an entry point for clients and provides services for other lines of business.

The Private Wealth Management business provides a full array of wealth management products and professional services to both individual and institutional clients including brokerage, professional investment management, and trust services to clients seeking active management of their financial resources. Private Wealth Management's primary businesses include Private Banking, STIS and IIS. Private Banking offers a full array of loan and deposit products to clients. STIS offers discount/online and full service brokerage services to individual clients. IIS includes Employee Benefit Solutions, Foundations & Endowments Specialty Group, and Escrow Services. See the GenSpring discussion in the Wholesale Banking section below for recent developments.

The Wholesale Banking segment includes the following six businesses:

CIB offers a wide array of traditional banking products (lending and treasury management services) and investment banking services. CIB serves clients in the large, middle corporate and commercial markets. The Corporate Banking Group generally serves clients with greater than \$750 million in annual revenues and is focused on selected industry sectors: consumer and retail energy, financial services and technology, healthcare, and media and communications. The Middle Market Group generally serves clients with annual revenue ranging from \$100 million to \$750 million. Comprehensive investment banking products and services are provided by STRH to clients in both Wholesale Banking and Private Wealth Management, including strategic advice, raising capital, and financial risk management.

Diversified Commercial Banking offers an array of traditional banking products and investment banking services as needed for the Company's small business clients, commercial clients, dealer services (financing dealer floor plan inventories), not-for-profit and government entities, and insurance premium financing through Premium Assignment Corporation.

Commercial Real Estate provides financial solutions for commercial real estate developers and investors, including construction, mini-perm, and permanent real estate financing, as well as tailored financing and equity investment solutions for community development and affordable housing projects delivered through SunTrust Community Capital. Leasing, offering equipment lease financing solutions, is also managed within this segment.

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GenSpring provides family office solutions to ultra high net worth individuals and their families. Utilizing teams of multi-disciplinary specialists with expertise in investments, tax, accounting, estate planning and other wealth management disciplines, GenSpring helps families manage and sustain their wealth across multiple generations. During October 2012, management responsibility for GenSpring was transferred to the Consumer Banking and Private Wealth Management segment, and accordingly, will be reflected in that segment in the future.

RidgeWorth, an SEC registered investment advisor, serves as investment manager for the RidgeWorth Funds as well as individual clients. RidgeWorth is also a holding company with ownership in other institutional asset management boutiques offering a wide array of equity and fixed income capabilities. These boutiques include Ceredex Value Advisors, Certium Asset Management, Seix Investment Advisors, Silvant Capital Management, StableRiver Capital Management, and Zevenbergen Capital Investments.

Notes to Consolidated Financial Statements (Unaudited), continued

Treasury & Payment Solutions provides all SunTrust business clients with services required to manage their payments and receipts, and the ability to manage and optimize their deposits across all aspects of their business. Treasury & Payment Solutions operates all electronic and paper payment types, including card, wire transfer, ACH, check and cash, while providing clients the means to manage their accounts electronically online both domestically and internationally.

The Mortgage Banking segment offers residential mortgage products nationally through its retail, broker, and correspondent channels, as well as via the internet ([www.suntrust.com](http://www.suntrust.com)) and by telephone (1-800-SUNTRUST). These products are either sold in the secondary market, primarily with servicing rights retained, or held in the Company's loan portfolio. The line of business services loans for itself, for other SunTrust lines of business, and for other investors. The line of business also includes ValuTree Real Estate Services, LLC, a tax service subsidiary.

Corporate Other includes management of the Company's investment securities portfolio, long-term debt, end user derivative instruments, short-term liquidity and funding activities, balance sheet risk management, and most real estate assets. Other components include Enterprise Information Services, which is the primary information technology and operations group; the Corporate Real Estate group, Marketing, SunTrust Online, Human Resources, Finance, Corporate Risk Management, Legal and Compliance, Branch Operations, Communications, Procurement, and Executive Management.

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

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

Net interest income – All net interest income is presented on a FTE basis. The revenue gross-up has been applied to tax-exempt loans and investments to make them comparable to other taxable products. The segments have also been matched maturity funds transfer priced, generating credits or charges based on the economic value or cost created by the assets and liabilities of each segment. The mismatch between funds credits and funds charges at the segment level resides in Reconciling Items. The change in the matched maturity funds mismatch is generally attributable to corporate balance sheet management strategies.

Provision for credit losses - Represents net charge-offs by segment. The difference between the segment net charge-offs and the consolidated provision for credit losses is reported in Reconciling Items.

Provision/(benefit) for income taxes - Calculated using a nominal income tax rate for each segment. This calculation includes the impact of various income adjustments, such as the reversal of the FTE gross up on tax-exempt assets, tax adjustments, and credits that are unique to each business segment. The difference between the calculated provision/(benefit) for income taxes at the segment level and the consolidated provision/(benefit) for income taxes is reported in Reconciling Items.

The segment's financial performance is comprised of direct financial results as well as various allocations that for internal management reporting purposes provide an enhanced view of analyzing the segment's financial performance. The internal allocations include the following:

Operational Costs – Expenses are charged to the segments based on various statistical volumes multiplied by activity based cost rates. As a result of the activity based costing process, planned residual expenses are also allocated to the segments. The recoveries for the majority of these costs are in the Corporate Other.

Support and Overhead Costs – Expenses not directly attributable to a specific segment are allocated based on various drivers (e.g., number of full-time equivalent employees and volume of loans and deposits). The recoveries for these allocations are in Corporate Other.

Sales and Referral Credits – Segments may compensate another segment for referring or selling certain products. The majority of the revenue resides in the segment where the product is ultimately managed.

The application and development of management reporting methodologies is a dynamic process and is subject to periodic enhancements. The implementation of these enhancements to the internal management reporting

methodology may materially affect the results disclosed for each segment with no impact on consolidated results. Whenever significant changes to management reporting methodologies take place, the impact of these changes is quantified and prior period information is reclassified wherever practicable.

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Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                                                         | Three Months Ended September 30, 2012                      |                      |                     |                    |                      |              |
|-------------------------------------------------------------------------------|------------------------------------------------------------|----------------------|---------------------|--------------------|----------------------|--------------|
|                                                                               | Consumer<br>Banking<br>and Private<br>Wealth<br>Management | Wholesale<br>Banking | Mortgage<br>Banking | Corporate<br>Other | Reconciling<br>Items | Consolidated |
| Average total assets                                                          | \$46,420                                                   | \$65,105             | \$35,372            | \$26,800           | \$1,585              | \$175,282    |
| Average total liabilities                                                     | 76,978                                                     | 52,746               | 4,890               | 19,937             | 112                  | 154,663      |
| Average total equity                                                          | —                                                          | —                    | —                   | —                  | 20,619               | 20,619       |
| Net interest income                                                           | \$641                                                      | \$441                | \$130               | \$79               | (\$20 )              | \$1,271      |
| FTE adjustment                                                                | —                                                          | 29                   | —                   | 1                  | —                    | 30           |
| Net interest income - FTE <sup>1</sup>                                        | 641                                                        | 470                  | 130                 | 80                 | (20 )                | 1,301        |
| Provision for credit losses <sup>2</sup>                                      | 163                                                        | 78                   | 270                 | —                  | (61 )                | 450          |
| Net interest income/(loss) after provision<br>for credit losses               | 478                                                        | 392                  | (140 )              | 80                 | 41                   | 851          |
| Total noninterest income                                                      | 308                                                        | 402                  | (75 )               | 1,910              | (3 )                 | 2,542        |
| Total noninterest expense                                                     | 706                                                        | 585                  | 371                 | 64                 | —                    | 1,726        |
| Income/(loss) before provision/(benefit)<br>for income taxes                  | 80                                                         | 209                  | (586 )              | 1,926              | 38                   | 1,667        |
| Provision/(benefit) for income taxes <sup>3</sup>                             | 30                                                         | 57                   | (198 )              | 658                | 34                   | 581          |
| Net income/(loss) including income<br>attributable to noncontrolling interest | 50                                                         | 152                  | (388 )              | 1,268              | 4                    | 1,086        |
| Net income attributable to noncontrolling<br>interest                         | —                                                          | 7                    | —                   | 3                  | (1 )                 | 9            |
| Net income/(loss)                                                             | \$50                                                       | \$145                | (\$388 )            | \$1,265            | \$5                  | \$1,077      |

| (Dollars in millions)                                                         | Three Months Ended September 30, 2011                      |                      |                     |                    |                      |              |
|-------------------------------------------------------------------------------|------------------------------------------------------------|----------------------|---------------------|--------------------|----------------------|--------------|
|                                                                               | Consumer<br>Banking<br>and Private<br>Wealth<br>Management | Wholesale<br>Banking | Mortgage<br>Banking | Corporate<br>Other | Reconciling<br>Items | Consolidated |
| Average total assets                                                          | \$43,507                                                   | \$62,659             | \$33,158            | \$31,203           | \$1,549              | \$172,076    |
| Average total liabilities                                                     | 77,574                                                     | 55,466               | 3,903               | 15,443             | (310 )               | 152,076      |
| Average total equity                                                          | —                                                          | —                    | —                   | —                  | 20,000               | 20,000       |
| Net interest income                                                           | \$630                                                      | \$414                | \$116               | \$128              | (\$25 )              | \$1,263      |
| FTE adjustment                                                                | —                                                          | 28                   | —                   | 1                  | 1                    | 30           |
| Net interest income - FTE <sup>1</sup>                                        | 630                                                        | 442                  | 116                 | 129                | (24 )                | 1,293        |
| Provision for credit losses <sup>2</sup>                                      | 181                                                        | 167                  | 144                 | —                  | (145 )               | 347          |
| Net interest income/(loss) after provision<br>for credit losses               | 449                                                        | 275                  | (28 )               | 129                | 121                  | 946          |
| Total noninterest income                                                      | 378                                                        | 320                  | 115                 | 94                 | (4 )                 | 903          |
| Total noninterest expense                                                     | 729                                                        | 526                  | 314                 | (5 )               | (4 )                 | 1,560        |
| Income/(loss) before provision/(benefit)<br>for income taxes                  | 98                                                         | 69                   | (227 )              | 228                | 121                  | 289          |
| Provision/(benefit) for income taxes <sup>3</sup>                             | 36                                                         | 5                    | (89 )               | 77                 | 46                   | 75           |
| Net income/(loss) including income<br>attributable to noncontrolling interest | 62                                                         | 64                   | (138 )              | 151                | 75                   | 214          |

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|                                                    |      |      |        |   |       |      |       |   |
|----------------------------------------------------|------|------|--------|---|-------|------|-------|---|
| Net income attributable to noncontrolling interest | —    | (4   | )      | — | 2     | 1    | (1    | ) |
| Net income/(loss)                                  | \$62 | \$68 | (\$138 | ) | \$149 | \$74 | \$215 |   |

<sup>1</sup>Net interest income is FTE and is presented on a matched maturity funds transfer price basis for the segments.

<sup>2</sup>Provision for credit losses represents net charge-offs for the segments.

<sup>3</sup>Includes regular income tax provision/(benefit) and taxable-equivalent income adjustment reversal.

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Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions)                                                         | Nine Months Ended September 30, 2012                       |                      |                     |                    |                      |              |
|-------------------------------------------------------------------------------|------------------------------------------------------------|----------------------|---------------------|--------------------|----------------------|--------------|
|                                                                               | Consumer<br>Banking<br>and Private<br>Wealth<br>Management | Wholesale<br>Banking | Mortgage<br>Banking | Corporate<br>Other | Reconciling<br>Items | Consolidated |
| Average total assets                                                          | \$46,306                                                   | \$64,341             | \$35,465            | \$29,145           | \$1,422              | \$176,679    |
| Average total liabilities                                                     | 77,559                                                     | 53,724               | 4,357               | 20,767             | (178)                | ) 156,229    |
| Average total equity                                                          | —                                                          | —                    | —                   | —                  | 20,450               | 20,450       |
| Net interest income                                                           | \$1,905                                                    | \$1,303              | \$388               | \$300              | (\$40)               | ) \$3,856    |
| FTE adjustment                                                                | —                                                          | 90                   | —                   | 3                  | —                    | 93           |
| Net interest income - FTE <sup>1</sup>                                        | 1,905                                                      | 1,393                | 388                 | 303                | (40)                 | ) 3,949      |
| Provision for credit losses <sup>2</sup>                                      | 435                                                        | 246                  | 602                 | —                  | (216)                | ) 1,067      |
| Net interest income/(loss) after provision<br>for credit losses               | 1,470                                                      | 1,147                | (214)               | ) 303              | 176                  | 2,882        |
| Total noninterest income                                                      | 971                                                        | 1,164                | 261                 | 1,971              | (9)                  | ) 4,358      |
| Total noninterest expense                                                     | 2,097                                                      | 1,617                | 1,053               | 56                 | (10)                 | ) 4,813      |
| Income/(loss) before provision/(benefit) for<br>income taxes                  | 344                                                        | 694                  | (1,006)             | ) 2,218            | 177                  | 2,427        |
| Provision/(benefit) for income taxes <sup>3</sup>                             | 126                                                        | 194                  | (367)               | ) 761              | 89                   | 803          |
| Net income/(loss) including income<br>attributable to noncontrolling interest | 218                                                        | 500                  | (639)               | ) 1,457            | 88                   | 1,624        |
| Net income attributable to noncontrolling<br>interest                         | —                                                          | 14                   | —                   | 7                  | 1                    | 22           |
| Net income/(loss)                                                             | \$218                                                      | \$486                | (\$639)             | ) \$1,450          | \$87                 | \$1,602      |

| (Dollars in millions)                                                         | Nine Months Ended September 30, 2011                       |                      |                     |                    |                      |              |
|-------------------------------------------------------------------------------|------------------------------------------------------------|----------------------|---------------------|--------------------|----------------------|--------------|
|                                                                               | Consumer<br>Banking<br>and Private<br>Wealth<br>Management | Wholesale<br>Banking | Mortgage<br>Banking | Corporate<br>Other | Reconciling<br>Items | Consolidated |
| Average total assets                                                          | \$43,393                                                   | \$62,070             | \$33,681            | \$31,120           | \$1,622              | \$171,886    |
| Average total liabilities                                                     | 77,394                                                     | 54,790               | 3,675               | 15,285             | (119)                | ) 151,025    |
| Average total equity                                                          | —                                                          | —                    | —                   | —                  | 20,861               | 20,861       |
| Net interest income                                                           | \$1,869                                                    | \$1,203              | \$348               | \$367              | (\$16)               | ) \$3,771    |
| FTE adjustment                                                                | —                                                          | 79                   | —                   | 5                  | —                    | 84           |
| Net interest income - FTE <sup>1</sup>                                        | 1,869                                                      | 1,282                | 348                 | 372                | (16)                 | ) 3,855      |
| Provision for credit losses <sup>2</sup>                                      | 560                                                        | 488                  | 520                 | —                  | (382)                | ) 1,186      |
| Net interest income/(loss) after provision<br>for credit losses               | 1,309                                                      | 794                  | (172)               | ) 372              | 366                  | 2,669        |
| Total noninterest income                                                      | 1,109                                                      | 1,110                | 271                 | 229                | (21)                 | ) 2,698      |
| Total noninterest expense                                                     | 2,170                                                      | 1,611                | 837                 | (29)               | ) (22)               | ) 4,567      |
| Income/(loss) before provision/(benefit) for<br>income taxes                  | 248                                                        | 293                  | (738)               | ) 630              | 367                  | 800          |
| Provision/(benefit) for income taxes <sup>3</sup>                             | 91                                                         | 44                   | (287)               | ) 229              | 143                  | 220          |
| Net income/(loss) including income<br>attributable to noncontrolling interest | 157                                                        | 249                  | (451)               | ) 401              | 224                  | 580          |

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|                                                    |       |       |          |       |       |       |
|----------------------------------------------------|-------|-------|----------|-------|-------|-------|
| Net income attributable to noncontrolling interest | —     | —     | —        | 7     | —     | 7     |
| Net income/(loss)                                  | \$157 | \$249 | (\$451 ) | \$394 | \$224 | \$573 |

<sup>1</sup>Net interest income is FTE and is presented on a matched maturity funds transfer price basis for the segments.

<sup>2</sup>Provision for credit losses represents net charge-offs for the segments.

<sup>3</sup>Includes regular income tax provision/(benefit) and taxable-equivalent income adjustment reversal.

Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Important Cautionary Statement About Forward-Looking Statements**

This report contains forward-looking statements. Statements regarding (i) future levels of net charge-offs and core net charge-offs, net interest margin, loan production volumes, asset yields, liability costs, commercial loan swap income, other real estate expense, core expenses, employee compensation, NPLs, net interest income, mortgage repurchase demands and the mortgage repurchase reserve and related provision expense, interchange revenue, noninterest expense (including compensatory fees imposed as a result of foreclosure delays), capital ratios and our expectations that capital ratios will continue to exceed future regulatory requirements, (ii) future changes or growth in loans, delinquency ratios, the residential, consumer and commercial portfolios, (iii) our expectations regarding our future ability to mitigate the impact of card fees lost as a result of regulatory changes; (iv) our expectations regarding the adequacy of the mortgage repurchase provision to cover the estimated losses on loans sold to GSEs prior to 2009 and the adequacy of mark to market adjustments on assets we plan to sell and/or which have been transferred to AFS; (v) the timing and impact of planned future asset sales, including sales of student loans, Ginnie Mae securities, non-performing residential and commercial loans, and affordable housing investments; and (vi) the timing and variability of inflows of nonperforming residential and commercial loans during the remainder of 2012, are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words "believes," "expects," "anticipates," "estimates," "intends," "plans," "targets," "initiates," "potentially," "probably," "projects," "outlook" or similar expressions or future conditional verbs such as "may," "should," "would," and "could." Such statements are based upon the current beliefs and expectations of management and on information currently available to management. Such statements speak as of the date hereof, and we do not assume any obligation to update the statements made herein or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, and include risks discussed in this MD&A and in other periodic reports that we file with the SEC. Those factors include: as one of the largest lenders in the Southeast and Mid-Atlantic U.S. and a provider of financial products and services to consumers and businesses across the U.S., our financial results have been, and may continue to be, materially affected by general economic conditions, particularly unemployment levels and home prices in the U.S., and a deterioration of economic conditions or of the financial markets may materially adversely affect our lending and other businesses and our financial results and condition; legislation and regulation, including the Dodd-Frank Act, as well as future legislation and/or regulation, could require us to change certain of our business practices, reduce our revenue, impose additional costs on us, or otherwise adversely affect our business operations and/or competitive position; we are subject to capital adequacy and liquidity guidelines and, if we fail to meet these guidelines, our financial condition would be adversely affected; loss of customer deposits and market illiquidity could increase our funding costs; we rely on the mortgage secondary market and GSEs for some of our liquidity; we are subject to credit risk; our ALLL may not be adequate to cover our eventual losses; we may have more credit risk and higher credit losses to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral; we will realize future losses if the proceeds we receive upon liquidation of nonperforming assets are less than the carrying value of such assets; a downgrade in the U.S. government's sovereign credit rating, or in the credit ratings of instruments issued, insured or guaranteed by related institutions, agencies or instrumentalities, could result in risks to us and general economic conditions that we are not able to predict; the failure of the European Union to stabilize the fiscal condition and creditworthiness of its weaker member economies, such as Greece, Portugal, Spain, Hungary, Ireland, and Italy, could have international implications potentially impacting global financial institutions, the financial markets, and the economic recovery underway in the U.S.; weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may

continue to adversely affect us; we are subject to certain risks related to originating and selling mortgages, and may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or as a result of certain breaches of our servicing agreements, and this could harm our liquidity, results of operations, and financial condition; financial difficulties or credit downgrades of mortgage and bond insurers may adversely affect our servicing and investment portfolios; we may be terminated as a servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions; we are subject to risks related to delays in the foreclosure process; we may continue to suffer increased losses in our loan portfolio despite enhancement of our underwriting policies and practices; our mortgage production and servicing revenue can be volatile; changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity; changes in interest rates could also reduce the value of our MSRs and mortgages held for sale, reducing our earnings; the fiscal and

monetary policies of the federal government and its agencies could have a material adverse effect on our earnings; depressed market values for our stock may require us to write down goodwill; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; consumers may decide not to use banks to complete their financial transactions, which could affect net income; we have businesses other than banking which subject us to a variety of risks; hurricanes and other disasters may adversely affect loan portfolios and operations and increase the cost of doing business; negative public opinion could damage our reputation and adversely impact business and revenues; a failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber attacks, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses; we rely on other companies to provide key components of our business infrastructure; the soundness of other financial institutions could adversely affect us; we depend on the accuracy and completeness of information about clients and counterparties; regulation by federal and state agencies could adversely affect the business, revenue, and profit margins; competition in the financial services industry is intense and could result in losing business or margin declines; maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services; we might not pay dividends on your common stock; our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends; disruptions in our ability to access global capital markets may adversely affect our capital resources and liquidity; any reduction in our credit rating could increase the cost of our funding from the capital markets; we have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits; we are subject to certain litigation, and our expenses related to this litigation may adversely affect our results; we may incur fines, penalties and other negative consequences from regulatory violations, possibly even from inadvertent or unintentional violations; we depend on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer; we may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategies; our accounting policies and processes are critical to how we report our financial condition and results of operations, and they require management to make estimates about matters that are uncertain; changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition; our stock price can be volatile; our framework for managing risks may not be effective in mitigating risk and loss to us; our disclosure controls and procedures may not prevent or detect all errors or acts of fraud; our financial instruments carried at fair value expose us to certain market risks; our revenues derived from our investment securities may be volatile and subject to a variety of risks; and we may enter into transactions with off-balance sheet affiliates or our subsidiaries.

## INTRODUCTION

This MD&A is intended to assist readers in their analysis of the accompanying consolidated financial statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes. When we refer to “SunTrust,” “the Company,” “we,” “our” and “us” in this narrative, we mean SunTrust Banks, Inc. and its subsidiaries (consolidated).

We are one of the nation’s largest commercial banking organizations and our headquarters are located in Atlanta, Georgia. Our principal banking subsidiary, SunTrust Bank, offers a full line of financial services for consumers and businesses through its branches located primarily in Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia, and the District of Columbia. Within our geographic footprint, we operate under three business segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking, with the remainder in Corporate Other. See Note 14, “Business Segment Reporting,” to the Consolidated Financial Statements in this Form 10-Q for a discussion of the change in our segment reporting structure since December 31, 2011. In addition to deposit, credit, and trust and investment services offered by the Bank, our other subsidiaries provide mortgage banking, asset management, securities brokerage, capital market services, and credit-related insurance. The following analysis of our financial performance for the three and nine months ended September 30, 2012, should be read in conjunction with the consolidated financial statements, notes to consolidated financial statements, and other information contained in this document and our Annual Report on Form 10-K for the year ended December 31, 2011.

Certain reclassifications have been made to prior year consolidated financial statements and related information to conform them to the September 30, 2012, presentation. In the MD&A, net interest income, the net interest margin, and the efficiency ratio are presented on an FTE basis. The FTE basis adjusts for the tax-favored status of net interest income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. Additionally, we present certain non-U.S. GAAP metrics to assist investors in understanding management's view of particular financial measures, as well as, to align presentation of these financial measures with peers in the industry who may also provide a similar presentation. Reconcilements for all non-U.S. GAAP measures are provided in Table 1, Selected Quarterly Financial Data.

## EXECUTIVE OVERVIEW

## Economic and regulatory

Economic indicators were mixed during the first nine months of 2012 after remaining relatively unchanged during 2011. Unemployment declined from year-end levels, while consumer confidence and the housing markets remained unsettled. The unemployment rate, which fell below 9% during the fourth quarter of 2011, continued to decline modestly during the first nine months of 2012, settling at just below 8% at September 30, 2012. Consumer confidence improved during 2012, as consumer spending increased amidst improving labor market conditions and subdued consumer price inflation, but remained depressed overall when compared to pre-recession levels as a result of a continued sluggish economic recovery in the U.S., continued concerns over the health of the European Union, and reports of slowing growth in other emerging economies. While some actions have been taken during 2012 to ease the European sovereign debt crisis, uncertainty in the direction of the financial markets continues to exist as European consumer confidence continued to decline. As of September 30, 2012, we had no direct exposure to sovereign debt of European countries experiencing significant economic, fiscal, and/or political strains. See additional discussion of European debt exposure in "Other Market Risk" in this MD&A. The U.S. housing market continued to be weak as evidenced by the large inventory of foreclosed or distressed properties and continued low levels of construction of new single-family homes. Further, while home prices have risen modestly during the first nine months of 2012, prices remained under pressure and many continued to owe more on their mortgage compared to the current market value of their home. Adding to the economic uncertainty is the risk of the U.S. economy experiencing the "fiscal cliff" at the end of 2012, and the negative effects that may result from higher taxes and reductions in government spending. Amidst the continued stagnant economic conditions seen during the first nine months of 2012, the Federal Reserve indicated in September that highly accommodative monetary policy will remain for a considerable time after the economic recovery strengthens and as such, it anticipates maintaining key interest rates at exceptionally low levels, at least through mid-2015. As a result of employing their monetary policy, the Federal Reserve continues to maintain large portfolios of U.S. Treasury notes and bonds and agency MBS and will continue to do so through the end of 2012. Further, in September the Federal Reserve indicated that if the outlook for the labor market does not improve substantially, further action will be taken in the form of continued purchases of agency MBS, purchases of additional assets, and employment of other tools as appropriate until such improvement is achieved. The Federal Reserve outlook remains for moderate economic growth over coming quarters, a relatively high unemployment rate, and the expectation of stable longer-term inflation. A persistent low interest rate environment may adversely affect the interest income we earn on loans and investments.

Regulatory and financial reform efforts continued during the first nine months of 2012, as regulatory agencies proposed and worked to finalize numerous rules. In June 2012, the Federal Reserve and other U.S. banking regulators issued a NPR related to capital adequacy rules to implement the BCBS's Basel III framework for financial institutions in the U.S. While much of the NPR was consistent with the BCBS's Basel III framework which it updated in June of 2011, we have noted some substantial differences from that original framework. As currently proposed, we believe that our risk-weighted assets will increase primarily due to increased risk-weightings for residential mortgages, home equity loans, and commercial real estate, resulting in a decline in our capital ratios. Under the proposed rules, we estimate our current Basel III Tier 1 common ratio would be approximately 8.0%, which would be in compliance with the proposed requirements. The agencies are expected to consider the feedback and draft a final rule, which could take several quarters to complete. Accordingly, the final rule may differ from the current NPR. Further, the NPR indicates a phase-in for the new capital rules with the proposed risk-weightings requirement not becoming effective until 2015. Notwithstanding the uncertainty surrounding the timing and content of the final rule, our current Basel III Tier 1 common ratio estimate that we calculated using the NPR assumptions does not include the effect of any mitigating actions we may undertake to offset some of the anticipated impact of the proposed capital changes. See additional discussion in the "Capital Resources" section of this MD&A.

In 2011, the Federal Reserve conducted a horizontal review of the nation's largest mortgage loan servicers, including us. Following this review, we and other servicers entered into a Consent Order with the Federal Reserve. We describe the Consent Order in our Annual Report on Form 10-K for the year ended December 31, 2011 and Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q and "Nonperforming Assets" in this

MD&A. The Consent Order requires us to improve certain mortgage servicing and foreclosure processes and to retain an independent foreclosure consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010 to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and prepare a written report detailing the findings. Our work required to comply with the Federal Reserve's Consent Order continues. We note that certain aspects of the scope of the foreclosure review have not been finalized. On June 21, 2012, the OCC and the Federal Reserve released guidance that will be used in determining the compensation or other remedy that borrowers will receive for financial injury identified during the independent foreclosure review. Under the guidance, remediation for injuries may include lump-sum payments, suspension or rescission of a foreclosure, a loan modification or other loss mitigation assistance, correction of credit reports, or correction of deficiency amounts and records. For each instance requiring financial remediation, lump-sum payments can range from \$500 to, in the most egregious cases, \$125,000 plus an amount equal to the equity in the house. We are currently incurring the costs associated with the Consent Order-required foreclosure file review. Until the independent

foreclosure review has been finalized, the total costs associated with the review process are uncertain; however, costs may increase from current levels. We also continue with settlement discussions with the U.S. and States Attorneys General related to mortgage servicing claims as discussed in Note 13, "Contingencies" to the Consolidated Financial Statements in this Form 10-Q. We accrued for the anticipated cost of resolving these and other potential claims in our 2011 financial results.

#### Capital

Our capital remained strong at September 30, 2012, as year to date earnings drove our Tier 1 common equity ratio to 9.82% compared to 9.22% at December 31, 2011. Our Tier 1 capital and total capital ratios were 10.57% and 12.95%, respectively, compared to 10.90% and 13.67%, respectively, at December 31, 2011. The change in Tier 1 and total capital ratios from year end is primarily due to the redemption of trust preferred securities in June and July. Overall, our capital remains strong and well above the requirements to be considered "well capitalized" according to current and proposed regulatory standards. See additional discussion of our capital and liquidity position in the "Capital Resources" and "Liquidity Risk" sections of this MD&A.

#### Financial performance

Our core performance continued to steadily improve during the first nine months of 2012 and marked a continuation of the momentum that we built during 2011. The three and nine months ended September 30, 2012 included improved net interest income and core mortgage-related income, as well as continued favorable trends in loans, deposits, capital, and credit quality. Additionally, we took strategic actions during the three months ended September 30, 2012 that improved our risk profile and strengthened our balance sheet. The strategic actions that were announced in September included the following:

- The acceleration of the termination of agreements regarding shares owned in Coke and the sale and charitable contribution of Coke shares resulted in a net pre-tax securities gain of \$1.9 billion. In addition, our donation of one million shares of Coke to the SunTrust Foundation increased noninterest expense by \$38 million.

The mortgage repurchase provision of \$371 million increased the mortgage repurchase reserve to a level that is expected to cover the estimated losses on loans sold to GSEs prior to 2009 and negatively affected noninterest income.

The sale of \$0.5 billion of nonperforming mortgage and commercial real estate loans increased charge-offs and the loan loss provision by \$172 million.

The movement of \$1.4 billion of delinquent and current student loans and \$0.5 billion of delinquent Ginnie Mae loans to loans held for sale decreased noninterest income by \$92 million.

Additionally, valuation losses related to the planned sale of \$0.2 billion of affordable housing investments resulted in a \$96 million increase in noninterest expense.

Collectively, these actions contributed \$753 million to net income available to common shareholders, or \$1.40 per average common share, in the third quarter.

Including the effects of the strategic actions, net income available to common shareholders during the three and nine months ended September 30, 2012, was \$1.1 billion and \$1.6 billion, or \$1.98 and \$2.94 per average common diluted share, respectively. Comparatively, net income available to common shareholders during the three and nine months ended September 30, 2011, was \$211 million and \$424 million, or \$0.39 and \$0.81 per average common diluted share, respectively. Results in 2012 compared to 2011 were driven by the strategic actions, but beyond the strategic actions, earnings were also impacted positively during both 2012 periods by improvements in net interest income and core mortgage-related income. Additionally, for the nine month periods, the absence of preferred dividends paid to the U.S. Treasury since the first quarter of 2011 and a non-cash charge related to the accelerated accretion associated with repayment of the U.S. government's TARP investment in March 2011 also drove improvement in 2012 compared to 2011. During the three and nine months ended September 30, 2012, the provision for credit losses increased 30% and decreased 10%, respectively, compared to the three and nine months ended September 30, 2011. Excluding the additional provision in the third quarter related to the strategic actions discussed above, the provision for credit losses decreased significantly. However, as credit quality continues to improve, the impact to net income available to common shareholders due to lower provisions for credit losses is expected to be less substantial in future periods.

Our PPG expense initiative made significant progress during the first nine months of 2012 and at September 30, 2012, we have surpassed the goal of realizing \$300 million in annualized savings through this program a year ahead of schedule. While the PPG program is complete, we expect to continue our efforts to become a more efficient organization. Further, we are focused on revenue and expense initiatives that will help us to achieve our long-term efficiency ratio target of below 60%.

Our asset quality metrics continued to improve in 2012, driven in part by the strategic actions taken in the third quarter specifically designed to improve our risk profile and also due to improved core credit quality trends. At September 30, 2012, the ALLL ratio remains elevated by historical standards at 1.84% of total loans, but has declined 17 basis points compared to December 31, 2011 due to decreases in the ALLL primarily as a result of improving core credit quality trends. Total NPLs continued the downward trend that began in 2010, with a decline of 40% from December 31, 2011, partially due to the sales

in the third quarter as part of the strategic actions and the remainder as a result of reduced inflows into nonaccrual combined with our problem loan resolution efforts. Declines in NPLs were experienced in all categories, with the largest declines coming from the residential and commercial portfolios, driven by the sales during the third quarter. Partially offsetting the declines was the decision, driven by regulatory guidance, to move \$81 million in performing second lien loans that were subordinate to nonaccrual first lien loans into NPL. Even if the sales from the strategic actions were excluded and despite the movement of the performing second liens into NPL, our NPLs declined 22% compared to year end. OREO declined 37% compared to the prior year end and was the result of continued disposition of properties once we had clear title, coupled with a moderation of inflows. Our restructured loan portfolio declined 14% compared to December 31, 2011, with decreases in both the nonaccruing and accruing loan populations. Further, the accruing restructured portfolio continued to exhibit strong payment performance with 95% current on principal and interest payments at September 30, 2012. Early stage delinquencies, a leading indicator of asset quality, particularly for consumer loans, declined during the first nine months of 2012, both in total and when excluding government-guaranteed loan delinquencies. This decline was a result of our ongoing efforts to reduce risk in the portfolio as evidenced by declines in certain higher-risk loans. Our nonperforming loans are also down by almost 70% since their peak in 2009, to \$1.7 billion, or 1.42% of the loan portfolio at September 30, 2012.

The provision for loan losses decreased 11% for the nine months ended September 30, 2012 compared to the same period in 2011, but increased by 29% during the three months ended September 30, 2012 compared to the same period a year earlier. The decrease was due to improvement in credit quality, while the increase was driven by the additional provision related to the strategic actions taken in September. Excluding this additional provision, the provision for loan losses declined during the current quarter compared to the prior year quarter as a result of improvement in credit quality. Similarly, net charge-offs increased 4% during the three months ended September 30, 2012 and decreased 18% during the nine months ended September 30, 2012, compared to the same periods in 2011, respectively. Net charge-offs increased during the three month period as a result of the strategic actions in September and decreased in the nine months as a result of improved credit quality. Additionally, the increase in net charge-offs during the three month period was also due to the accelerated recognition of \$65 million in incremental charge-offs related to our second lien policy change during the third quarter when we implemented a change in credit policy to recognize the charge-off at 120 days past due compared to previously recognizing the charge-off at 180 days past due. We currently expect an increase in net charge-offs during the fourth quarter of 2012 as a result of some normal seasonality, and the fact that our recoveries were higher this quarter compared to recent quarters. See additional discussion of credit and asset quality in the “Loans,” “Allowance for Credit Losses,” “Nonperforming Assets,” and “Restructured Loans,” sections of this MD&A.

Average loans increased 7% during both the three and nine months ended September 30, 2012, compared to the same periods in 2011. The increase in both periods was led by increases in commercial and industrial loans, nonguaranteed mortgage, and consumer indirect loans. Additionally, during the nine month period guaranteed mortgage loans and the acquisition of student loan portfolios late in 2011 also drove the increase over the same period in the prior year. Partially offsetting the increase during the three month period were intentional decreases in guaranteed mortgage loans and home equity loans. During the nine month period, commercial real estate, commercial construction, and home equity loans were managed down, partially offsetting the increase in average loans. Our risk profile remains noticeably improved as declines in certain higher-risk loan portfolios have been offset by targeted growth in certain lower-risk portfolios, such as government-guaranteed loans. As a result, our guaranteed loans represent 9% of the portfolio at September 30, 2012 and 11% at December 31, 2011. Our decision to grow government guaranteed loans over the past several years served as a transition to a time of organic loan growth, as well as helped to reduce the risk in the balance sheet in conjunction with the decline in high-risk loans. As recent quarters have yielded organic growth, the higher-risk loan balances have declined, and as part of our continued active management of the balance sheet, we elected to sell approximately \$500 million of government guaranteed mortgages in the second quarter of 2012. Additionally, in the third quarter of 2012, we transferred \$500 million of nonperforming mortgages and commercial real estate loans, as well as \$1.4 billion of delinquent and current government guaranteed student loans and \$0.5 billion of delinquent government guaranteed mortgage loans to held for sale. As of September 30, 2012, we have sold a majority of the transferred nonperforming mortgage and commercial real estate loans, while the guaranteed student and mortgage loans remained in held for sale at September 30. In October 2012, we sold over \$1.0 billion of the

student loans and we expect to sell the remaining transferred student, mortgage, and commercial real estate loans before year end. These transfers reduced the size of our government guaranteed portfolio at September 30, making the guaranteed portion of the portfolio more consistent with our longer-term balance sheet targets. Further, we expect to transfer approximately \$600 million of additional guaranteed student loans to held for sale in the fourth quarter, with an immaterial gain or loss associated with the transfer, in furtherance of this long-term strategy. We remain committed to providing home financing in the communities we serve and are focused on extending credit to qualified borrowers during this uncertain economic period. To that end, during the nine months ended September 30, 2012, we extended approximately \$66 billion in new loan originations, commitments, and renewals of commercial, residential, and consumer loans to our clients.

Deposits remained at record highs during 2012 and the shift in deposit mix seen during 2011 to lower-cost deposits continued. Average consumer and commercial deposits increased 2% and 3% during three and nine months ended September 30, 2012, compared to the same periods in 2011, respectively. The driver of the increase for both periods was average balance increases

of 19% and 22%, respectively, in noninterest-bearing DDAs, partially offset by declines in higher cost time deposits of 17% and 14%, respectively, due to maturities of CDs. While a portion of the low-cost deposit growth is likely attributable to clients' desires for having increased liquidity, we continue to believe that we have also proactively generated this growth in both our Consumer and Wholesale businesses as we have expanded our number of primary client relationships. Due to the growth seen in core deposits, our liquidity has been enhanced, enabling us to reduce our higher-cost wholesale funding sources. Our primary higher-cost funding source is long-term debt, which we reduced, on average, by 14% and 11% compared to the three and nine months ended September 30, 2011, respectively. A driver of the decline in long-term debt was the July 2012 redemption of \$1.2 billion of higher cost trust preferred securities. Notwithstanding, we believe our deposit levels may decline modestly during 2013 after the removal of the FDIC's unlimited guarantee on demand deposits, which is expected to revert back to an insurance cap of \$250,000 on January 1, 2013. See additional discussions in the "Net Interest Margin" and "Borrowings" sections of this MD&A.

Total revenue, on an FTE basis, increased 75% and 27% compared to the three and nine months ended September 30, 2011, respectively, driven by securities gains realized on the sale of our Coke common stock and, to a lesser extent, a modest increase in net interest income. Net interest income, on an FTE basis, increased 1% and 2% compared to the three and nine months ended September 30, 2011, respectively, primarily as a result of higher loan balances, lower interest bearing liability balances and funding costs, and an improved funding mix. Our net interest margin was 3.38% and 3.42% for the three and nine months ended September 30, 2012, compared to 3.49% and 3.52% during the three and nine months ended September 30, 2011, respectively. The declines in margin were a result of lower yielding loans, a decline in securities AFS yields, the elimination of the quarterly Coke dividend due to sale and contribution of our Coke stock, and a decline in our swap-related income related to maturing commercial loan swaps, but were partially offset by the redemption of \$1.2 billion of higher cost trust preferred securities, the maturity of higher cost CDs, and the continued favorable shift in deposit mix to lower cost accounts. Noninterest income increased 182% and 62% compared to the three and nine months ended September 30, 2011, respectively, most notably due to the gains realized on the sale of our Coke common stock. Additionally, an improvement in core mortgage-related income was driven by the low interest rate environment and expanded refinancing programs announced by the U.S. government, which resulted in increased production volume during both periods. The increases in noninterest income were partially offset in both periods by an increase in the mortgage repurchase provision and, to a lesser extent, declines in card fees and other income. The mortgage repurchase provision increased \$254 million and \$414 million during the three and nine months ended September 30, 2012 compared to the same periods in 2011, respectively, as a result of information received during the quarter from the GSEs, as well as our recent experience related to demands, that enhanced our ability to estimate losses of remaining expected demands on foreclosed and currently delinquent loans sold to the GSEs prior to 2009. Card fees were lower in 2012 compared to the same periods in 2011 due to the new regulations on debit card interchange fees that became effective at the beginning of the fourth quarter of 2011, and other income was driven lower by \$92 million in losses related to the transfer of guaranteed student and mortgage loans to held for sale during the third quarter of 2012. Noninterest expense increased 11% and 5% compared to the three months ended September 30, 2011, respectively, primarily as a result of higher personnel costs, increased customer development expenses as a result of donating 1 million shares of our Coke common stock to the SunTrust Foundation, and a \$96 million increase in other noninterest expense as a result of valuation losses on the planned sale of affordable housing investments. The increase in personnel costs was due to accelerated vesting of deferred compensation associated with organizational changes in certain businesses and higher incentive compensation due to improved business performance. During the nine months ended September 30, 2012, outside processing and software expense and operating losses also contributed to the increase compared to the same period in 2011. Lower regulatory fees partially offset the increases in noninterest expense during the three and nine months. See additional discussion of our financial performance in the "Consolidated Financial Results" section of this MD&A.

#### Line of Business Highlights

During 2012, we changed our reporting segments and now measure business activities based on three segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking, with the remainder in Corporate Other. During the three and nine months ended September 30, 2012, our core performance improved in each line of business compared to the three and nine months ended September 30, 2011.

In Consumer Banking and Private Wealth Management, we had solid consumer loan production growth, with year-to-date volume 15% higher than the same nine month period in 2011. Favorable deposit trends also continued, as we generated DDA growth of 14% during the nine months ended September 30, 2012 compared to the same period in 2011. While from a revenue perspective, this business continues to be challenged due to regulatory headwinds, we have reduced expenses by 3% during both the three and nine months ended September 30, 2012, compared to the same periods in 2011. Clients are increasingly utilizing self-service channels, which has enabled us to make changes to our staffing model to improve our efficiency and effectiveness.

Wholesale Banking continued to deliver strong results with net income for the nine months ended September 30, 2012, nearly double what it was compared to the same period in 2011. Significant growth in capital markets fees, coupled with higher net interest income, drove revenue higher by 14% for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Additionally, during the same period, average loans increased 8% and client deposits increased 5%. Furthermore, our CIB business surpassed record revenue and net income levels achieved earlier in 2012, setting another quarter of record performance for the three months ended September 30, 2012.

While Mortgage Banking reported a net loss, primarily due to the increase in the mortgage repurchase reserve and the mortgage NPL and government guaranteed loan sales, core trends continued to markedly improve. Mortgage production volume was \$24 billion during the nine months ended September 30, 2012, up nearly \$8 billion, or 48%, from the same period last year. This increase in volume has led to improved core mortgage origination income, which was \$460 million higher during the same period, more than a 130% increase from the nine months ended September 30, 2011. It is reasonable to assume some volume and margin compression going forward, but we do expect overall conditions in the mortgage market to continue to remain favorable in the near term. While the elevated levels of refinance activity have certainly been beneficial during 2012, we are also continuing to devote resources to purchase activity, which we think will again be the primary driver of mortgage revenue when refinance volume moderates. Additionally, we are also focused on building out delivery channels and driving volume with better channel selection to maximize our longer-term return profile for the Mortgage Banking segment.

Our Corporate Other segment encompasses all remaining areas of the Company and remains key to our asset and liability performance. This segment continues to manage the balance sheet within the context of changing financial market conditions. This segment's net income increased during the three and nine months ended September 30, 2012, compared to the same periods in 2011, driven by the securities gains on the sale of the Coke common stock, partially offset by a decline in net interest income and an increase in noninterest expenses.

Additional discussion of our segment structure and changes made during 2012 can be found in Note 14, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-Q, and further discussion of segment results for the nine months ended September 30, 2012 and 2011, can be found in the "Business Segment Results" section of this MD&A.

## SELECTED QUARTERLY FINANCIAL DATA

Table 1

|                                                                                                                        | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
| (Dollars in millions, except per share data)                                                                           | 2012                               | 2011      | 2012                              | 2011      |
| Summary of Operations                                                                                                  |                                    |           |                                   |           |
| Interest income                                                                                                        | \$1,445                            | \$1,538   | \$4,471                           | \$4,638   |
| Interest expense                                                                                                       | 174                                | 275       | 615                               | 867       |
| Net interest income                                                                                                    | 1,271                              | 1,263     | 3,856                             | 3,771     |
| Provision for credit losses                                                                                            | 450                                | 347       | 1,067                             | 1,186     |
| Net interest income after provision for credit losses                                                                  | 821                                | 916       | 2,789                             | 2,585     |
| Noninterest income                                                                                                     | 2,542                              | 903       | 4,358                             | 2,698     |
| Noninterest expense                                                                                                    | 1,726                              | 1,560     | 4,813                             | 4,567     |
| Net income before provision for income taxes                                                                           | 1,637                              | 259       | 2,334                             | 716       |
| Provision for income taxes                                                                                             | 551                                | 45        | 710                               | 136       |
| Net income/(loss) attributable to noncontrolling interest                                                              | 9                                  | (1)       | 22                                | 7         |
| Net income                                                                                                             | \$1,077                            | \$215     | \$1,602                           | \$573     |
| Net income available to common shareholders                                                                            | \$1,066                            | \$211     | \$1,581                           | \$424     |
| Net interest income - FTE                                                                                              | \$1,301                            | \$1,293   | \$3,949                           | \$3,855   |
| Total revenue - FTE                                                                                                    | 3,843                              | 2,196     | 8,307                             | 6,553     |
| Total revenue - FTE excluding securities gains, net <sup>1</sup>                                                       | 1,902                              | 2,194     | 6,334                             | 6,455     |
| Net income per average common share:                                                                                   |                                    |           |                                   |           |
| Diluted                                                                                                                | 1.98                               | 0.39      | 2.94                              | 0.81      |
| Diluted excluding effect of accelerated accretion associated with the repurchase of preferred stock issued to the U.S. | 1.98                               | 0.39      | 2.94                              | 0.95      |
| Treasury                                                                                                               |                                    |           |                                   |           |
| Basic                                                                                                                  | 1.99                               | 0.40      | 2.96                              | 0.81      |
| Dividends paid per average common share                                                                                | 0.05                               | 0.05      | 0.15                              | 0.07      |
| Book value per common share                                                                                            | 37.35                              | 37.29     |                                   |           |
| Tangible book value per common share <sup>2</sup>                                                                      | 25.72                              | 25.60     |                                   |           |
| Market price:                                                                                                          |                                    |           |                                   |           |
| High                                                                                                                   | 30.79                              | 26.52     | 30.79                             | 33.14     |
| Low                                                                                                                    | 22.34                              | 16.51     | 18.07                             | 16.51     |
| Close                                                                                                                  | 28.27                              | 17.95     | 28.27                             | 17.95     |
| Selected Average Balances                                                                                              |                                    |           |                                   |           |
| Total assets                                                                                                           | \$175,282                          | \$172,076 | \$176,679                         | \$171,886 |
| Earning assets                                                                                                         | 153,207                            | 146,836   | 154,236                           | 146,536   |
| Loans                                                                                                                  | 124,080                            | 115,638   | 123,332                           | 115,242   |
| Consumer and commercial deposits                                                                                       | 125,353                            | 122,974   | 125,692                           | 121,863   |
| Brokered time and foreign deposits                                                                                     | 2,237                              | 2,312     | 2,252                             | 2,418     |
| Total shareholders' equity                                                                                             | 20,619                             | 20,000    | 20,450                            | 20,861    |
| Average common shares - diluted (thousands)                                                                            | 538,699                            | 535,395   | 537,538                           | 524,888   |
| Average common shares - basic (thousands)                                                                              | 534,506                            | 531,928   | 533,859                           | 521,248   |
| Financial Ratios (Annualized)                                                                                          |                                    |           |                                   |           |
| ROA                                                                                                                    | 2.45                               | % 0.50    | % 1.21                            | % 0.45    |
| ROE                                                                                                                    | 20.84                              | 4.23      | 10.47                             | 2.96      |
| Net interest margin - FTE                                                                                              | 3.38                               | 3.49      | 3.42                              | 3.52      |
| Efficiency ratio <sup>3</sup>                                                                                          | 44.90                              | 71.05     | 57.94                             | 69.69     |
| Tangible efficiency ratio <sup>4</sup>                                                                                 | 44.47                              | 70.55     | 57.48                             | 69.18     |
| Total average shareholders' equity to total average assets                                                             | 11.76                              | 11.62     | 11.57                             | 12.14     |

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|                                                 |       |   |       |   |
|-------------------------------------------------|-------|---|-------|---|
| Tangible equity to tangible assets <sup>5</sup> | 8.48  |   | 8.38  |   |
| Capital Adequacy                                |       |   |       |   |
| Tier 1 common equity                            | 9.82  | % | 9.31  | % |
| Tier 1 capital                                  | 10.57 |   | 11.10 |   |
| Total capital                                   | 12.95 |   | 13.91 |   |
| Tier 1 leverage                                 | 8.49  |   | 8.90  |   |

## SELECTED QUARTERLY FINANCIAL DATA, continued

|                                                                                                                                                    | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|---------|
|                                                                                                                                                    | 2012                               | 2011      | 2012                              | 2011    |
| Reconciliation of Non U.S. GAAP Financial Measures                                                                                                 |                                    |           |                                   |         |
| Net income available to common shareholders                                                                                                        | \$1,066                            | \$211     | \$1,581                           | \$424   |
| Accelerated accretion for repurchase of preferred stock issued to U.S. Treasury                                                                    | —                                  | —         | —                                 | 74      |
| Net income available to common shareholders excluding accelerated accretion for repurchase of preferred stock issued to U.S. Treasury              | \$1,066                            | \$211     | \$1,581                           | \$498   |
| Net income per average common share - diluted                                                                                                      | \$1.98                             | \$0.39    | \$2.94                            | \$0.81  |
| Effect of accelerated accretion for repurchase of preferred stock issued to U.S. Treasury                                                          | —                                  | —         | —                                 | 0.14    |
| Net income per average common share - diluted, excluding effect of accelerated accretion for repurchase of preferred stock issued to U.S. Treasury | \$1.98                             | \$0.39    | \$2.94                            | \$0.95  |
| Net income                                                                                                                                         | \$1,077                            | \$215     | \$1,602                           | \$573   |
| Preferred dividends                                                                                                                                | (2 )                               | (2 )      | (8 )                              | (5 )    |
| U.S. Treasury preferred dividends and accretion of discount                                                                                        | —                                  | —         | —                                 | (66 )   |
| Accelerated accretion for repurchase of preferred stock issued to U.S. Treasury                                                                    | —                                  | —         | —                                 | (74 )   |
| Dividends and undistributed earnings allocated to unvested shares                                                                                  | (9 )                               | (2 )      | (13 )                             | (4 )    |
| Net income available to common shareholders                                                                                                        | \$1,066                            | \$211     | \$1,581                           | \$424   |
| Net interest income                                                                                                                                | \$1,271                            | \$1,263   | \$3,856                           | \$3,771 |
| FTE adjustment                                                                                                                                     | 30                                 | 30        | 93                                | 84      |
| Net interest income - FTE                                                                                                                          | 1,301                              | 1,293     | 3,949                             | 3,855   |
| Noninterest income                                                                                                                                 | 2,542                              | 903       | 4,358                             | 2,698   |
| Total revenue - FTE                                                                                                                                | 3,843                              | 2,196     | 8,307                             | 6,553   |
| Net securities gains                                                                                                                               | (1,941 )                           | (2 )      | (1,973 )                          | (98 )   |
| Total revenue - FTE excluding net securities gains                                                                                                 | \$1,902                            | \$2,194   | \$6,334                           | \$6,455 |
| Efficiency ratio <sup>3</sup>                                                                                                                      | 44.90 %                            | 71.05 %   | 57.94 %                           | 69.69 % |
| Impact of excluding amortization of intangible assets other than MSRs                                                                              | (0.43 )                            | (0.50 )   | (0.46 )                           | (0.51 ) |
| Tangible efficiency ratio <sup>4</sup>                                                                                                             | 44.47 %                            | 70.55 %   | 57.48 %                           | 69.18 % |
| Total shareholders' equity                                                                                                                         | \$20,399                           | \$20,200  |                                   |         |
| Goodwill, net of deferred taxes of \$159 and \$149, respectively                                                                                   | (6,210 )                           | (6,195 )  |                                   |         |
| Other intangible assets, net of deferred taxes of \$8 and \$18, respectively, and MSRs                                                             | (888 )                             | (1,120 )  |                                   |         |
| MSRs                                                                                                                                               | 831                                | 1,033     |                                   |         |
| Tangible equity                                                                                                                                    | 14,132                             | 13,918    |                                   |         |
| Preferred stock                                                                                                                                    | (275 )                             | (172 )    |                                   |         |
| Tangible common equity                                                                                                                             | \$13,857                           | \$13,746  |                                   |         |
| Total assets                                                                                                                                       | \$173,181                          | \$172,553 |                                   |         |
| Goodwill                                                                                                                                           | (6,369 )                           | (6,344 )  |                                   |         |
| Other intangible assets including MSRs                                                                                                             | (896 )                             | (1,138 )  |                                   |         |
| MSRs                                                                                                                                               | 831                                | 1,033     |                                   |         |

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|                                                                                             |           |   |           |   |
|---------------------------------------------------------------------------------------------|-----------|---|-----------|---|
| Tangible assets                                                                             | \$166,747 |   | \$166,104 |   |
| Tangible equity to tangible assets <sup>5</sup>                                             | 8.48      | % | 8.38      | % |
| Tangible book value per common share <sup>2</sup>                                           | \$25.72   |   | \$25.60   |   |
|                                                                                             |           |   |           |   |
| Total loans                                                                                 | \$121,817 |   | \$117,475 |   |
| Government guaranteed loans                                                                 | (10,646   | ) | (9,782    | ) |
| Loans held at fair value                                                                    | (390      | ) | (452      | ) |
| Total loans, excluding government guaranteed and fair value loans                           | \$110,781 |   | \$107,241 |   |
| Allowance to total loans, excluding government guaranteed and fair value loans <sup>6</sup> | 2.02      | % | 2.42      | % |
|                                                                                             |           |   |           |   |
| (\$ in billions)                                                                            |           |   |           |   |
| Tier 1 Common Equity - Basel I                                                              | \$13.2    |   |           |   |
| Adjustments from Basel I to Proposed Basel III <sup>7</sup>                                 | (0.2      | ) |           |   |
| Tier 1 Common Equity - Proposed Basel III <sup>8</sup>                                      | \$13.0    |   |           |   |
| Risk-weighted Assets - Basel I                                                              | \$133.9   |   |           |   |
| Adjustments from Basel I to Proposed Basel III <sup>9</sup>                                 | 29.2      |   |           |   |
| Risk-weighted Assets - Proposed Basel III                                                   | \$163.1   |   |           |   |
| Tier 1 Common Equity Ratio:                                                                 |           |   |           |   |
| Basel I                                                                                     | 9.8       | % |           |   |
| Proposed Basel III <sup>8</sup>                                                             | 8.0       |   |           |   |

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<sup>1</sup>We present total revenue-FTE excluding net securities gains. We believe noninterest income without net securities gains is more indicative of our performance because it isolates income that is primarily client relationship and client transaction driven and is more indicative of normalized operations.

<sup>2</sup>We present a tangible book value per common share that excludes the after-tax impact of purchase accounting intangible assets and also excludes preferred stock from tangible equity. We believe this measure is useful to investors because, by removing the effect of intangible assets that result from merger and acquisition activity as well as preferred stock (the level of which may vary from company to company), it allows investors to more easily compare our book value on common stock to other companies in the industry.

<sup>3</sup>Computed by dividing noninterest expense by total revenue - FTE. The FTE basis adjusts for the tax-favored status of net interest income from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources.

<sup>4</sup>We present a tangible efficiency ratio which excludes the amortization of intangible assets other than MSRs. We believe this measure is useful to investors because, by removing the effect of these intangible asset costs (the level of which may vary from company to company), it allows investors to more easily compare our efficiency to other companies in the industry. This measure is utilized by us to assess our efficiency and that of our lines of business.

<sup>5</sup>We present a tangible equity to tangible assets ratio that excludes the after-tax impact of purchase accounting intangible assets. We believe this measure is useful to investors because, by removing the effect of intangible assets that result from merger and acquisition activity (the level of which may vary from company to company), it allows investors to more easily compare our capital adequacy to other companies in the industry. This measure is used by us to analyze capital adequacy.

<sup>6</sup>We present a ratio of allowance to total loans, excluding government guaranteed and fair value loans, to exclude loans from the calculation that are held at fair value with no related allowance and loans guaranteed by a government agency that do not have an associated allowance recorded due to nominal risk of principal loss.

<sup>7</sup>Primarily relates to the impacts of unrealized securities AFS gains and accrued pension liabilities recognized in AOCI.

<sup>8</sup>The proposed Basel III calculations of Tier 1 common equity, risk-weighted assets, and the Tier 1 common equity ratio are based upon our interpretation of the notice of proposed rule making issued by the Federal Reserve in June 2012. The final Basel III ruling by the Federal Reserve is subject to potential changes from the proposed rulemaking, as is our interpretation of the rules.

<sup>9</sup>The largest differences between the risk-weighted assets as calculated under Basel I and the Basel III proposal relate to the risk-weightings for mortgage, home equity, and commercial real estate loans.

| Consolidated Daily Average Balances, Income/Expense and Average Yields Earned and Rates Paid |                    |         |         |                    |         |         | Table 2                  |         |  |
|----------------------------------------------------------------------------------------------|--------------------|---------|---------|--------------------|---------|---------|--------------------------|---------|--|
| (Dollars in millions; yields on taxable-equivalent basis)                                    | Three Months Ended |         |         | September 30, 2011 |         |         | Increase/(Decrease) From |         |  |
|                                                                                              | Average            | Income/ | Yields/ | Average            | Income/ | Yields/ | Average                  | Yields/ |  |
|                                                                                              | Balances           | Expense | Rates   | Balances           | Expense | Rates   | Balances                 | Rates   |  |
| Assets                                                                                       |                    |         |         |                    |         |         |                          |         |  |
| Loans: <sup>1</sup>                                                                          |                    |         |         |                    |         |         |                          |         |  |
| Commercial and industrial - FTE <sup>2</sup>                                                 | \$51,923           | \$578   | 4.43 %  | \$46,261           | \$595   | 5.11 %  | \$5,662                  | (0.68 ) |  |
| Commercial real estate                                                                       | 4,525              | 41      | 3.56    | 5,192              | 49      | 3.72    | (667 )                   | (0.16 ) |  |
| Commercial construction                                                                      | 784                | 7       | 3.74    | 1,043              | 10      | 3.90    | (259 )                   | (0.16 ) |  |
| Residential mortgages - guaranteed                                                           | 5,432              | 37      | 2.76    | 4,349              | 39      | 3.59    | 1,083                    | (0.83 ) |  |
| Residential mortgages - nonguaranteed                                                        | 22,905             | 256     | 4.47    | 21,888             | 266     | 4.87    | 1,017                    | (0.40 ) |  |
| Home equity products                                                                         | 14,866             | 138     | 3.68    | 15,718             | 148     | 3.74    | (852 )                   | (0.06 ) |  |
| Residential construction                                                                     | 667                | 9       | 5.44    | 826                | 11      | 5.10    | (159 )                   | 0.34    |  |
| Guaranteed student loans                                                                     | 7,183              | 71      | 3.92    | 4,765              | 52      | 4.35    | 2,418                    | (0.43 ) |  |
| Other direct                                                                                 | 2,266              | 25      | 4.35    | 1,906              | 23      | 4.67    | 360                      | (0.32 ) |  |
| Indirect                                                                                     | 10,584             | 102     | 3.84    | 9,761              | 109     | 4.44    | 823                      | (0.60 ) |  |
| Credit cards                                                                                 | 577                | 14      | 9.87    | 522                | 15      | 11.31   | 55                       | (1.44 ) |  |
| Nonaccrual <sup>3</sup>                                                                      | 2,368              | 8       | 1.37    | 3,407              | 7       | 0.79    | (1,039 )                 | 0.58    |  |
| Total loans                                                                                  | 124,080            | 1,286   | 4.12    | 115,638            | 1,324   | 4.54    | 8,442                    | (0.42 ) |  |
| Securities available for sale:                                                               |                    |         |         |                    |         |         |                          |         |  |
| Taxable                                                                                      | 20,424             | 140     | 2.74    | 23,768             | 195     | 3.29    | (3,344 )                 | (0.55 ) |  |
| Tax-exempt - FTE <sup>2</sup>                                                                | 350                | 5       | 5.29    | 485                | 7       | 5.44    | (135 )                   | (0.15 ) |  |
| Total securities available for sale - FTE                                                    | 20,774             | 145     | 2.78    | 24,253             | 202     | 3.33    | (3,479 )                 | (0.55 ) |  |
| Securities purchased under agreements to resell                                              | 952                | —       | 0.05    | 977                | —       | —       | (25 )                    | 0.05    |  |
| LHFS                                                                                         | 3,294              | 29      | 3.48    | 2,032              | 21      | 4.11    | 1,262                    | (0.63 ) |  |
| Interest-bearing deposits                                                                    | 21                 | —       | 0.26    | 21                 | —       | 0.15    | —                        | 0.11    |  |
| Interest earning trading assets                                                              | 4,086              | 15      | 1.49    | 3,915              | 21      | 2.09    | 171                      | (0.60 ) |  |
| Total earning assets                                                                         | 153,207            | 1,475   | 3.83    | 146,836            | 1,568   | 4.23    | 6,371                    | (0.40 ) |  |
| ALLL                                                                                         | (2,193 )           |         |         | (2,682 )           |         |         | 489                      |         |  |
| Cash and due from banks                                                                      | 4,579              |         |         | 5,567              |         |         | (988 )                   |         |  |
| Other assets                                                                                 | 14,810             |         |         | 16,676             |         |         | (1,866 )                 |         |  |
| Noninterest earning trading assets                                                           | 2,172              |         |         | 2,897              |         |         | (725 )                   |         |  |
| Unrealized gains on securities available for sale                                            | 2,707              |         |         | 2,782              |         |         | (75 )                    |         |  |
| Total assets                                                                                 | \$175,282          |         |         | \$172,076          |         |         | \$3,206                  |         |  |
| Liabilities and Shareholders' Equity                                                         |                    |         |         |                    |         |         |                          |         |  |
| Interest-bearing deposits:                                                                   |                    |         |         |                    |         |         |                          |         |  |
| NOW accounts                                                                                 | \$24,810           | \$6     | 0.09 %  | \$23,979           | \$8     | 0.13 %  | \$831                    | (0.04 ) |  |
| Money market accounts                                                                        | 41,517             | 21      | 0.20    | 43,095             | 39      | 0.36    | (1,578 )                 | (0.16 ) |  |
| Savings                                                                                      | 5,190              | 1       | 0.09    | 4,622              | 2       | 0.15    | 568                      | (0.06 ) |  |
| Consumer time                                                                                | 10,202             | 32      | 1.26    | 12,404             | 49      | 1.59    | (2,202 )                 | (0.33 ) |  |
| Other time                                                                                   | 5,771              | 21      | 1.42    | 6,940              | 30      | 1.70    | (1,169 )                 | (0.28 ) |  |

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|                                                         |           |         |        |           |         |        |          |         |
|---------------------------------------------------------|-----------|---------|--------|-----------|---------|--------|----------|---------|
| Total interest-bearing consumer and commercial deposits | 87,490    | 81      | 0.37   | 91,040    | 128     | 0.56   | (3,550 ) | (0.19 ) |
| Brokered time deposits                                  | 2,189     | 17      | 3.03   | 2,303     | 26      | 4.34   | (114 )   | (1.31 ) |
| Foreign deposits                                        | 48        | —       | 0.17   | 9         | —       | 0.13   | 39       | 0.04    |
| Total interest-bearing deposits                         | 89,727    | 98      | 0.43   | 93,352    | 154     | 0.65   | (3,625 ) | (0.22 ) |
| Funds purchased                                         | 701       | —       | 0.11   | 1,069     | —       | 0.11   | (368 )   | —       |
| Securities sold under agreements to repurchase          | 1,461     | 1       | 0.18   | 2,170     | 1       | 0.15   | (709 )   | 0.03    |
| Interest-bearing trading liabilities                    | 702       | 4       | 2.62   | 878       | 7       | 2.95   | (176 )   | (0.33 ) |
| Other short-term borrowings                             | 6,664     | 5       | 0.30   | 3,063     | 3       | 0.40   | 3,601    | (0.10 ) |
| Long-term debt                                          | 11,734    | 66      | 2.23   | 13,667    | 110     | 3.19   | (1,933 ) | (0.96 ) |
| Total interest-bearing liabilities                      | 110,989   | 174     | 0.62   | 114,199   | 275     | 0.95   | (3,210 ) | (0.33 ) |
| Noninterest-bearing deposits                            | 37,863    |         |        | 31,934    |         |        | 5,929    |         |
| Other liabilities                                       | 4,832     |         |        | 4,069     |         |        | 763      |         |
| Noninterest-bearing trading liabilities                 | 979       |         |        | 1,874     |         |        | (895 )   |         |
| Shareholders' equity                                    | 20,619    |         |        | 20,000    |         |        | 619      |         |
| Total liabilities and shareholders' equity              | \$175,282 |         |        | \$172,076 |         |        | \$3,206  |         |
| Interest Rate Spread                                    |           |         | 3.21 % |           |         | 3.28 % |          | (0.07 ) |
| Net Interest Income - FTE <sup>4</sup>                  |           | \$1,301 |        |           | \$1,293 |        |          |         |
| Net Interest Margin <sup>5</sup>                        |           |         | 3.38 % |           |         | 3.49 % |          | (0.11 ) |

<sup>1</sup>Interest income includes loan fees of \$27 million and \$32 million for the three month periods ended September 30, 2012 and 2011, respectively.

<sup>2</sup>Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated \$30 million for both the three month periods ended September 30, 2012 and 2011.

<sup>3</sup>Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.

<sup>4</sup>Derivative instruments that manage our interest-sensitivity position increased net interest income \$123 million and \$164 million for the three month periods ended September 30, 2012 and 2011, respectively.

<sup>5</sup>The net interest margin is calculated by dividing annualized net interest income – FTE by average total earning assets.

## Consolidated Daily Average Balances, Income/Expense and Average Yields Earned and Rates Paid

|                                                              | Nine Months Ended<br>September 30, 2012 |                    |                  |  | September 30, 2011  |                    |                  |  | Increase/(Decrease) From<br>Prior Year Quarter |                  |
|--------------------------------------------------------------|-----------------------------------------|--------------------|------------------|--|---------------------|--------------------|------------------|--|------------------------------------------------|------------------|
| (Dollars in millions; yields on<br>taxable-equivalent basis) | Average<br>Balances                     | Income/<br>Expense | Yields/<br>Rates |  | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |  | Average<br>Balances                            | Yields/<br>Rates |
| Assets                                                       |                                         |                    |                  |  |                     |                    |                  |  |                                                |                  |
| Loans: <sup>1</sup>                                          |                                         |                    |                  |  |                     |                    |                  |  |                                                |                  |
| Commercial and industrial -<br>FTE <sup>2</sup>              | \$50,758                                | \$1,754            | 4.62 %           |  | \$45,208            | \$1,760            | 5.21 %           |  | \$5,550                                        | (0.59 )          |
| Commercial real estate                                       | 4,614                                   | 126                | 3.65             |  | 5,462               | 152                | 3.71             |  | (848 )                                         | (0.06 )          |
| Commercial construction                                      | 855                                     | 25                 | 3.83             |  | 1,236               | 35                 | 3.84             |  | (381 )                                         | (0.01 )          |
| Residential mortgages -<br>guaranteed                        | 5,920                                   | 137                | 3.08             |  | 4,347               | 113                | 3.47             |  | 1,573                                          | (0.39 )          |
| Residential mortgages -<br>nonguaranteed                     | 22,521                                  | 775                | 4.59             |  | 21,950              | 826                | 5.02             |  | 571                                            | (0.43 )          |
| Home equity products                                         | 15,071                                  | 416                | 3.69             |  | 15,950              | 449                | 3.76             |  | (879 )                                         | (0.07 )          |
| Residential construction                                     | 704                                     | 27                 | 5.22             |  | 891                 | 35                 | 5.18             |  | (187 )                                         | 0.04             |
| Guaranteed student loans                                     | 7,229                                   | 211                | 3.89             |  | 4,566               | 148                | 4.34             |  | 2,663                                          | (0.45 )          |
| Other direct                                                 | 2,184                                   | 72                 | 4.39             |  | 1,824               | 66                 | 4.82             |  | 360                                            | (0.43 )          |
| Indirect                                                     | 10,329                                  | 302                | 3.90             |  | 9,566               | 334                | 4.67             |  | 763                                            | (0.77 )          |
| Credit cards                                                 | 553                                     | 43                 | 10.26            |  | 500                 | 45                 | 11.90            |  | 53                                             | (1.64 )          |
| Nonaccrual <sup>3</sup>                                      | 2,594                                   | 22                 | 1.13             |  | 3,742               | 25                 | 0.88             |  | (1,148 )                                       | 0.25             |
| Total loans                                                  | 123,332                                 | 3,910              | 4.23             |  | 115,242             | 3,988              | 4.63             |  | 8,090                                          | (0.40 )          |
| Securities available for sale:                               |                                         |                    |                  |  |                     |                    |                  |  |                                                |                  |
| Taxable                                                      | 22,406                                  | 507                | 3.01             |  | 23,728              | 579                | 3.25             |  | (1,322 )                                       | (0.24 )          |
| Tax-exempt - FTE <sup>2</sup>                                | 382                                     | 15                 | 5.35             |  | 517                 | 21                 | 5.49             |  | (135 )                                         | (0.14 )          |
| Total securities available<br>for sale - FTE                 | 22,788                                  | 522                | 3.05             |  | 24,245              | 600                | 3.30             |  | (1,457 )                                       | (0.25 )          |
| Securities purchased under<br>agreements to resell           | 869                                     | —                  | 0.03             |  | 1,040               | —                  | —                |  | (171 )                                         | 0.03             |
| LHFS                                                         | 3,099                                   | 84                 | 3.60             |  | 2,285               | 71                 | 4.14             |  | 814                                            | (0.54 )          |
| Interest-bearing deposits                                    | 21                                      | —                  | 0.24             |  | 22                  | —                  | 0.14             |  | (1 )                                           | 0.10             |
| Interest earning trading assets                              | 4,127                                   | 48                 | 1.55             |  | 3,702               | 63                 | 2.28             |  | 425                                            | (0.73 )          |
| Total earning assets                                         | 154,236                                 | 4,564              | 3.95             |  | 146,536             | 4,722              | 4.31             |  | 7,700                                          | (0.36 )          |
| ALLL                                                         | (2,314 )                                |                    |                  |  | (2,757 )            |                    |                  |  | 443                                            |                  |
| Cash and due from banks                                      | 4,621                                   |                    |                  |  | 5,498               |                    |                  |  | (877 )                                         |                  |
| Other assets                                                 | 14,987                                  |                    |                  |  | 17,237              |                    |                  |  | (2,250 )                                       |                  |
| Noninterest earning trading assets                           | 2,221                                   |                    |                  |  | 2,851               |                    |                  |  | (630 )                                         |                  |
| Unrealized gains on securities<br>available for sale         | 2,928                                   |                    |                  |  | 2,521               |                    |                  |  | 407                                            |                  |
| Total assets                                                 | \$176,679                               |                    |                  |  | \$171,886           |                    |                  |  | \$4,793                                        |                  |
| Liabilities and Shareholders'<br>Equity                      |                                         |                    |                  |  |                     |                    |                  |  |                                                |                  |
| Interest-bearing deposits:                                   |                                         |                    |                  |  |                     |                    |                  |  |                                                |                  |
| NOW accounts                                                 | \$25,009                                | \$18               | 0.10 %           |  | \$24,669            | \$29               | 0.15 %           |  | \$340                                          | (0.05 )          |
| Money market accounts                                        | 41,983                                  | 70                 | 0.22             |  | 42,856              | 130                | 0.41             |  | (873 )                                         | (0.19 )          |
| Savings                                                      | 5,073                                   | 4                  | 0.11             |  | 4,493               | 5                  | 0.16             |  | 580                                            | (0.05 )          |
| Consumer time                                                | 10,888                                  | 116                | 1.43             |  | 12,629              | 151                | 1.60             |  | (1,741 )                                       | (0.17 )          |

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|                                                         |           |         |        |           |         |        |          |         |
|---------------------------------------------------------|-----------|---------|--------|-----------|---------|--------|----------|---------|
| Other time                                              | 6,110     | 72      | 1.58   | 7,185     | 94      | 1.74   | (1,075 ) | (0.16 ) |
| Total interest-bearing consumer and commercial deposits | 89,063    | 280     | 0.42   | 91,832    | 409     | 0.60   | (2,769 ) | (0.18 ) |
| Brokered time deposits                                  | 2,222     | 62      | 3.65   | 2,322     | 77      | 4.36   | (100 )   | (0.71 ) |
| Foreign deposits                                        | 30        | —       | 0.17   | 96        | —       | 0.14   | (66 )    | 0.03    |
| Total interest-bearing deposits                         | 91,315    | 342     | 0.50   | 94,250    | 486     | 0.69   | (2,935 ) | (0.19 ) |
| Funds purchased                                         | 793       | 1       | 0.11   | 1,061     | 1       | 0.14   | (268 )   | (0.03 ) |
| Securities sold under agreements to repurchase          | 1,580     | 2       | 0.17   | 2,245     | 2       | 0.15   | (665 )   | 0.02    |
| Interest-bearing trading liabilities                    | 661       | 11      | 2.29   | 910       | 22      | 3.23   | (249 )   | (0.94 ) |
| Other short-term borrowings                             | 7,589     | 15      | 0.25   | 2,920     | 9       | 0.40   | 4,669    | (0.15 ) |
| Long-term debt                                          | 12,247    | 244     | 2.66   | 13,745    | 347     | 3.38   | (1,498 ) | (0.72 ) |
| Total interest-bearing liabilities                      | 114,185   | 615     | 0.72   | 115,131   | 867     | 1.01   | (946 )   | (0.29 ) |
| Noninterest-bearing deposits                            | 36,629    |         |        | 30,031    |         |        | 6,598    |         |
| Other liabilities                                       | 4,356     |         |        | 3,949     |         |        | 407      |         |
| Noninterest-bearing trading liabilities                 | 1,059     |         |        | 1,914     |         |        | (855 )   |         |
| Shareholders' equity                                    | 20,450    |         |        | 20,861    |         |        | (411 )   |         |
| Total liabilities and shareholders' equity              | \$176,679 |         |        | \$171,886 |         |        | \$4,793  |         |
| Interest Rate Spread                                    |           |         | 3.23 % |           |         | 3.30 % |          | (0.07 ) |
| Net Interest Income - FTE <sup>4</sup>                  |           | \$3,949 |        |           | \$3,855 |        |          |         |
| Net Interest Margin <sup>5</sup>                        |           |         | 3.42 % |           |         | 3.52 % |          | (0.10 ) |

<sup>1</sup>Interest income includes loan fees of \$82 million and \$108 million for the nine month periods ended September 30, 2012 and 2011, respectively.

<sup>2</sup>Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-

equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated \$93 million and \$84 million for the nine month periods ended September 30, 2012 and 2011, respectively.

<sup>3</sup>Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.

<sup>4</sup>Derivative instruments that manage our interest-sensitivity position increased net interest income \$404 million and \$476 million for the nine month periods ended September 30, 2012 and 2011, respectively.

<sup>5</sup>The net interest margin is calculated by dividing annualized net interest income – FTE by average total earning assets.

## Net Interest Income/Margin

## Third Quarter of 2012

Net interest income, on an FTE basis, was \$1.3 billion during the third quarter of 2012, an increase of \$8 million, or 1%, from the third quarter of 2011. The increase was predominantly driven by higher loan balances, lower interest-bearing liability balances, and continued favorable trends in the deposit mix that included declines in higher cost time deposits. These variances were partially offset by lower average securities and the elimination of the quarterly dividend on Coke stock as a result of our sale and charitable contribution of our remaining Coke shares in the third quarter. Net interest margin decreased by 11 basis points to 3.38% for the third quarter of 2012, compared to 3.49% for the third quarter of 2011. The decrease was primarily a result of an increase in average earning assets at marginally lower yields and a decline in securities yields driven by portfolio repositioning and the elimination of the quarterly Coke dividend, partially offset by an improved funding mix, characterized by increased demand deposits, a decline in higher cost time deposits and borrowings, and lower rates paid on interest-bearing liabilities. Yields on earning assets declined by 40 basis points to 3.83% during the third quarter of 2012 compared to 4.23% during the same period of 2011, as loans added during the period yielded less than maturing loans, reflecting the current low interest rate environment. Additionally, loan yields in the third quarter of 2012 were impacted by a decline in income derived from interest rate swaps utilized to manage interest rate risk. Yields on earning assets also declined due to the reduction in our securities portfolio due to the absence of attractive investment alternatives and the foregone Coke dividend. Rates paid on interest-bearing liabilities decreased by 33 basis points over the same period, predominantly due to improved funding mix, as growth in lower cost deposits and wholesale funding replaced higher-cost time deposits and long-term debt that matured, was called, or extinguished during the period. Specifically, during the quarter we benefited from the redemptions of the higher cost trust preferred securities that had a weighted average rate of approximately 7% and the maturity of a large population of higher cost CDs. In the fourth quarter, we expect to see a reduction in the net interest margin of approximately mid-single digit basis points, driven by additional reductions in asset yields, which we expect will partially be offset by lower liability costs. In the fourth quarter, we expect a reduction to net interest income as a result of the lower margin, coupled with our smaller balance sheet due to the closed and pending loan sales.

Average earning assets increased by \$6.4 billion, or 4%, compared to the third quarter of 2011, predominantly due to the growth in average loans, which increased by \$8.4 billion, or 7%, and a \$1.3 billion, or 62%, increase in loans held for sale, which increased partially as a result of the transfer of \$2.0 billion in loans to held for sale during the quarter. Partially offsetting the increases in loans was a \$3.5 billion, or 14%, decrease in our securities AFS portfolio as a result of the Coke stock sale, prepayments, maturities and principal repayments. The increase in loans was attributable to increases in commercial and industrial loans, primarily driven by our large corporate and middle market borrowers, government-guaranteed student loans, guaranteed residential mortgages, high credit quality nonguaranteed residential mortgages, consumer-indirect loans, and other direct loans. These increases were partially offset by declines in nonaccrual loans, home equity products, commercial real estate loans, and commercial construction loans. The declines in home equity, commercial real estate and commercial construction loans predominantly resulted from our targeted efforts to reduce exposure to these higher-risk loans. Our loan portfolio yielded 4.12% for the quarter, down 42 basis points from the third quarter of 2011. The yield decline was primarily driven by the low interest rate environment, and the aforementioned lower swap-related income impacting commercial loan yields.

We utilize interest rate swaps to manage interest rate risk. The largest notional position of these swaps are receive fixed/pay floating interest rate swaps that convert a portion of our commercial loan portfolio from floating rates, based on LIBOR, to fixed rates. As of September 30, 2012, the outstanding notional balance of active swaps was \$17.4 billion, which qualified as cash flow hedges on variable rate commercial loans, compared with \$15.9 billion as of September 30, 2011. In addition to the income recognized from currently outstanding swaps, we also continue to recognize interest income over the original hedge period resulting from terminated or de-designated swaps in a gain position that were previously designated as cash flow hedges on variable rate commercial loans. Swap income declined to \$118 million during the third quarter of 2012 from \$159 million during the third quarter of 2011. The \$41 million decline was primarily due to a decline in the income from \$3.5 billion of previously terminated swaps that reached their original maturity date in April of 2012. Assuming no significant changes to LIBOR, we expect commercial loan swap income to remain relatively stable at the current quarter level for the remainder of the year and

first quarter of 2013. Our interest rate risk management practices may cause us from time to time to purchase and/or terminate additional interest rate swaps. In the absence of additions or terminations, our notional balance of active swaps will begin to mature in the second quarter of 2013 with remaining maturities through early 2017. The average maturity of our active swap notional balances at September 30, 2012, was 2.6 years.

The commercial loan swaps have a fixed rate of interest that is received, while the rate paid is based on LIBOR. Estimated quarterly income of these swaps based on current expectations of future LIBOR rates is as follows:

|                     | Ending Notional<br>Balances of Active<br>Swaps (in billions) | Estimated Income<br>Related to Swaps (in<br>millions) |
|---------------------|--------------------------------------------------------------|-------------------------------------------------------|
| Fourth Quarter 2012 | \$17.4                                                       | \$116                                                 |
| First Quarter 2013  | 17.4                                                         | 113                                                   |
| Second Quarter 2013 | 15.3                                                         | 100                                                   |
| Third Quarter 2013  | 15.3                                                         | 92                                                    |
| Fourth Quarter 2013 | 15.3                                                         | 92                                                    |
| 2014                | 10.6                                                         | 331                                                   |

Average interest-bearing liabilities decreased by \$3.2 billion, or 3%, compared to the third quarter of 2011. The decrease was driven by a \$3.4 billion, or 17%, decline in higher cost time deposits, a \$1.9 billion, or 14%, decline in long-term debt, and a \$1.6 billion, or 4%, decline in money market accounts compared to the third quarter of 2011, partially offset by increases in other short-term borrowings and lower cost client deposits. Total average consumer and commercial deposits increased by \$2.4 billion, or 2%, compared to the same period during 2011. This increase was predominantly driven by a \$5.9 billion, or 19%, increase in demand deposits, partially offset by the aforementioned decline in higher-cost time deposits driven by the maturity of a large population of higher cost CDs. The growth in lower cost deposits was the result of successful sales efforts and clients' increased preference for more liquid products. Notwithstanding, we believe our deposit levels may decline modestly during 2013 after the removal of the FDIC's unlimited guarantee on demand deposits, which is expected to revert back to an insurance cap of \$250,000 on January 1, 2013. The increase in other short-term borrowings is a result of new FHLB borrowings during the period, which reflects a continuation of the recent trend toward a more normalized funding distribution. The decrease in long-term debt was primarily attributable to the aforementioned redemption of \$1.2 billion of higher cost trust preferred securities at the beginning of the third quarter. The growth in lower cost deposits, the decline in higher cost time deposits, and lower rates on new borrowings that replaced maturing or repurchased higher yielding borrowings, drove the 33 basis point decline in rates paid on interest-bearing liabilities compared to the same period during 2011. During the third quarter of 2012, the interest rate environment was characterized by a flatter yield curve versus the same period during 2011, as three-month LIBOR increased and rates at the long end of the curve declined. More specifically, during the third quarter of 2012, benchmark rates were as follows compared to the third quarter of 2011; one-month LIBOR averaged 0.24%, an increase of 3 basis points, three-month LIBOR averaged 0.43%, an increase of 13 basis points, five-year swaps averaged 0.86%, a decrease of 58 basis points, and ten-year swaps averaged 1.73%, a decrease of 83 basis points. The Fed funds target rate averaged 0.25% and the Prime rate averaged 3.25%, both unchanged from the third quarter of 2011.

#### First Nine Months of 2012

For the first nine months of 2012, net interest income was \$3.9 billion, an increase of \$94 million, or 2%, from the first nine months of 2011. The increase was predominantly driven by the same factors as discussed above for the third quarter related to higher loan balances and lower interest-bearing liability balances, partially offset by lower average securities AFS and the elimination of the quarterly Coke stock dividend in the third quarter.

Average earning assets increased by \$7.7 billion, or 5%. The increase in earning assets was predominantly attributable to increases of \$8.1 billion, or 7%, in average loans, and \$0.8 billion, or 36%, in LHFS, partially offset by a decrease of \$1.5 billion, or 6%, in average securities AFS. The increase in average loans was predominantly a result of growth in commercial and industrial loans, government-guaranteed student loans, guaranteed residential mortgages, and consumer-indirect loans, partially offset by declines in nonaccrual loans, home equity products, and commercial real estate loans. The factors contributing to the year-over-year changes in earning assets were the same as those discussed related to the third quarter of 2012 compared to the third quarter of 2011.

Interest-bearing liabilities decreased by \$0.9 billion, or 1%, compared to the nine months ended September 30, 2011, primarily driven by a \$2.8 billion, or 14%, decrease in higher-cost time deposits, a \$1.5 billion, or 11%, reduction in long-term debt, and a \$0.9 billion, or 2%, decrease in money market accounts, predominantly offset by an increase in other short-term borrowings. Average consumer and commercial deposits increased by \$3.8 billion, or 3%, during the

nine months ended September 30, 2012, compared with the nine months ended September 30, 2011. The increase was driven by a \$6.6 billion, or 22%, increase in demand deposits, partially offset by the aforementioned declines in higher-cost time deposits and money market accounts. The net interest margin was 3.42%, a decline of 10 basis points compared to the nine months ended September 30, 2011. Yields on average earning assets declined by 36 basis points to 3.95% for the nine months ended September 30,

2012, from 4.31% for the same period in 2011. The average yield on loans for the nine months ended September 30, 2012, was 4.23%, down 40 basis points from the same period in 2011. The factors in the year-over-year decrease in the yield on loans were the same as those discussed above related to the third quarter of 2012. Also contributing to the decline in the yields on average earning assets during the nine months ended September 30, 2012 was the 54 basis point decline in yields on LHFS, primarily due to the low interest rate environment during the current nine month period compared to the prior year nine month period, and the decline of 25 basis points on securities AFS, primarily due to the Coke sale, prepayments, maturities and principal repayments. The interest rate environment has also allowed active management of interest-bearing liabilities over the same period. The result of this active management was a decrease of 29 basis points in interest-bearing liabilities, due primarily to a 72 basis point decline in long-term debt, as well as a 18 basis point decline in consumer and commercial deposits. A driver of the decline in long-term debt was the redemptions of the higher cost trust preferred securities that had a weighted average rate of approximately 7%. The decline in the deposits was primarily driven by the maturity of higher cost CDs.

#### Foregone Interest

Foregone interest income from NPLs reduced net interest margin by 7 basis points during the third quarter of 2012 and 9 basis points during the first nine months of 2012, compared with a reduction of 14 basis points and 15 basis points during the three and nine months ended September 30, 2011, as average nonaccrual loans decreased by \$1.0 billion during the three months ended September 30, 2012 and by \$1.1 billion during the nine months ended September 30, 2012, compared to the same periods in 2011. See additional discussion of our expectations for future levels of credit quality in the "Allowance for Credit Losses" and "Nonperforming Assets" sections of this MD&A. Table 2 contains more detailed information concerning average balances, yields earned, and rates paid.

#### NONINTEREST INCOME

|                                           | Three Months Ended |       |                     | Nine Months Ended |         |                     | Table 3 |
|-------------------------------------------|--------------------|-------|---------------------|-------------------|---------|---------------------|---------|
|                                           | September 30       |       | %                   | September 30      |         | %                   |         |
| (Dollars in millions)                     | 2012               | 2011  | Change <sup>1</sup> | 2012              | 2011    | Change <sup>1</sup> |         |
| Service charges on deposit accounts       | \$172              | \$176 | (2 )%               | \$504             | \$509   | (1 )%               |         |
| Other charges and fees                    | 116                | 130   | (11 )               | 361               | 386     | (6 )                |         |
| Card fees                                 | 55                 | 104   | (47 )               | 183               | 309     | (41 )               |         |
| Trust and investment management income    | 127                | 134   | (5 )                | 387               | 404     | (4 )                |         |
| Retail investment services                | 60                 | 58    | 3                   | 180               | 175     | 3                   |         |
| Investment banking income                 | 83                 | 68    | 22                  | 230               | 231     | —                   |         |
| Trading income                            | 19                 | 66    | (71 )               | 145               | 171     | (15 )               |         |
| Mortgage production related (loss)/income | (64 )              | 54    | NM                  | 102               | 56      | 82                  |         |
| Mortgage servicing related income         | 64                 | 58    | 10                  | 215               | 202     | 6                   |         |
| Net securities gains                      | 1,941              | 2     | NM                  | 1,973             | 98      | NM                  |         |
| Other noninterest (loss)/income           | (31 )              | 53    | NM                  | 78                | 157     | (50 )               |         |
| Total noninterest income                  | \$2,542            | \$903 | NM                  | \$4,358           | \$2,698 | 62 %                |         |

<sup>1</sup>NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest income increased by \$1.6 billion compared to the three months ended September 30, 2011, driven primarily by \$1.9 billion in securities gains, partially offset by a higher mortgage repurchase provision of \$254 million and \$92 million in losses related to the transfer to held for sale of \$1.9 billion of student and mortgage loans. For the nine months ended September 30, 2012, noninterest income increased by \$1.7 billion, or 62%, also as a result of an higher securities gains partially offset by lower card fees and losses from the transfer to held for sale of student and mortgage loans.

Mortgage production related income for the third quarter of 2012 was a loss of \$64 million compared to income of \$54 million for the third quarter of 2011. The decline in income of \$118 million was primarily due to the previously described \$254 million increase in the mortgage repurchase provision, partially offset by higher loan production and increased gain on sale margins. For the three and nine months ended September 30, 2012, mortgage loan production volume increased compared to the same periods in 2011 to \$8.1 billion, a 40% increase, and \$24.1 billion, a 48%

increase, respectively. For the nine months ended September 30, 2012, mortgage production related income was \$102 million, up \$46 million, or 82% as purchase and refinancing activity increased due to the HARP 2.0 program and the continued low interest rate environment. While some volume and margin compression may occur in the coming quarters, we expect overall favorable conditions in the mortgage market in the near term. Higher production volume and gain on sale margins were partially offset by higher repurchase provision. The mortgage repurchase provision for the three and nine months ended September 30, 2012, was \$371 million and \$701 million compared to \$117 million and \$287 million for the three and nine months ended September 30, 2011, respectively. The reserve for mortgage repurchases was \$694 million at September 30, 2012, an increase of \$374 million from December 31, 2011.

The increase was the result of recent information received from the GSEs, as well as our recent experience related to full file requests and repurchase demands, which enhanced our ability to estimate losses attributable to the remaining expected demands on currently delinquent loans sold to the GSEs prior to 2009. These vintage loans have comprised the vast majority of mortgage repurchase losses to date. Consequently, future mortgage repurchase provisions are expected to decline substantially from levels experienced in recent quarters, and we expect the reserve to decline as losses are realized. For additional information on the mortgage repurchase reserve, see Note 11, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in this Form 10-Q and the "Critical Accounting Policies" section of our Annual Report on Form 10-K for the year ended December 31, 2011.

Mortgage servicing related income increased by \$6 million, or 10%, compared to the three months ended September 30, 2011, and by \$13 million, or 6%, compared to the nine months ended September 30, 2011. The increases were primarily driven by increased hedge performance, partially offset by decreased servicing income and increased payoffs due to refinancing activity.

Trading income decreased by \$47 million, or 71%, compared to the three months ended September 30, 2011, and by \$26 million, or 15%, compared to the nine months ended September 30, 2011. The decreases were primarily due to higher mark-to-market losses on fair value debt and index-linked CDs compared to gains in 2011, partially offset by higher core trading income and a decline in losses related to previously securitized loans.

Other charges and fees decreased by \$14 million, or 11%, compared to the three months ended September 30, 2011, and by \$25 million, or 6%, compared to the nine months ended September 30, 2011. The decreases were primarily due to lower debit card fee income, lower insurance premium income due to the termination of reinsurance agreements with mortgage insurance companies, and lower letters of credit fee income, partially offset by higher loan commitment fees.

Card fees decreased by \$49 million, or 47%, compared to the three months ended September 30, 2011, and by \$126 million, or 41%, compared to the nine months ended September 30, 2011. The decline was a result of regulations on debit card interchange fee income that became effective at the beginning of the fourth quarter of 2011, as well as the third quarter of 2012 reclassification of \$11 million of credit card reward costs, which were previously classified in other expense. We elected to make this reclassification to conform with predominant industry practice. For the three and nine months ended September 30, 2012, the decrease in interchange revenue was \$50 million and \$147 million, respectively, compared to the same periods in 2011. The estimated impact on interchange revenue as a result of the new interchange rules is consistent with our original expectations of a reduction in interchange revenue of approximately \$40 - \$50 million per quarter when compared with interchange revenue prior to the new regulations becoming effective.

As a means to mitigate some of this lost revenue, we introduced new checking account products which are aligned with clients' needs and which we expect will provide additional sources of fee income. Additionally, we also expect continued benefit from the discontinuation of our debit card rewards programs, actions taken to reduce the costs related to our debit card operational support, and the introduction of other value-added deposit product features over the next two years, which we expect will produce additional deposit fee income. We believed that these mitigating actions, among others, would assist in recapturing 50% of the lost revenue as a result of recent changes in regulations, including those on overdraft fees (Regulation E) and the new interchange fee rules. Inherent in this assumption was client acceptance of certain deposit-related fees for value-added services we provide. Since the regulations went into effect, we have experienced a lesser rate of acceptance than originally assumed on certain deposit-related fees and clients have changed their behavior to a greater extent than anticipated, including maintaining higher balances in their deposit accounts to avoid certain fees. As a result, we believe the recapture of lost revenue from the recent changes in regulations will be less than our original estimate and may take longer to achieve than originally planned. Excluding any effect of additional client acceptance of certain deposit-related fees, potential increases in debit card usage by clients, or other mitigating actions we may take, our interchange revenue in future quarters is expected to be consistent with results seen during the third quarter of 2012 as noted above.

Investment banking income increased by \$15 million, or 22%, compared to the three months ended September 30, 2011, and decreased by \$1 million compared to the nine months ended September 30, 2011. The increase relative to the third quarter of 2011 was primarily attributable to higher syndicated finance and bond origination fee income.

Net securities gains increased by \$1.9 billion compared to both the three and nine months ended September 30, 2011. The large increases were driven by \$1.9 billion of pre-tax gains resulting from the sale and charitable contribution of our Coke common stock, net of early termination of the Agreements, that occurred during the third quarter of 2012. See "Investment in Common Shares of the Coca-Cola Company" in this MD&A for additional information. For further discussion regarding our investment portfolio activity, see "Securities Available for Sale" in this MD&A. Other noninterest income was a loss for the third quarter of 2012 of \$31 million compared to income of \$53 million for the third quarter of 2011, a decline of \$84 million. The decline was the result of a \$92 million loss recognized in the third quarter of 2012 upon moving \$1.4 billion of current (\$0.7 billion) and delinquent (\$0.7 billion) student loans and \$0.5 billion of delinquent government guaranteed mortgage loans to loans held for sale. Subsequent to the third quarter of 2012, we sold

\$1.0 billion of these loans and anticipate selling the remainder of the student and government guaranteed mortgage loans during the fourth quarter of 2012. For the nine months ended September 30, 2012, other noninterest income declined \$79 million, or 50%, compared to the same period in the prior year primarily resulting from the aforementioned loss related to the transfer of loans to loans held for sale. Excluding the \$92 million loss related to the transfer of loans in the third quarter of 2012, other noninterest income increased \$8 million and \$13 million during the three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011, respectively.

## NONINTEREST EXPENSE

|                                                       | Three Months Ended<br>September 30 |         |                     | Nine Months Ended<br>September 30 |         |                     | Table 4 |
|-------------------------------------------------------|------------------------------------|---------|---------------------|-----------------------------------|---------|---------------------|---------|
| (Dollars in millions)                                 | 2012                               | 2011    | Change <sup>1</sup> | 2012                              | 2011    | Change <sup>1</sup> |         |
| Employee compensation                                 | \$670                              | \$642   | 4 %                 | \$1,977                           | \$1,898 | 4 %                 |         |
| Employee benefits                                     | 110                                | 108     | 2                   | 363                               | 354     | 3                   |         |
| Personnel expenses                                    | 780                                | 750     | 4                   | 2,340                             | 2,252   | 4                   |         |
| Outside processing and software                       | 171                                | 164     | 4                   | 527                               | 484     | 9                   |         |
| Net occupancy expense                                 | 92                                 | 90      | 2                   | 267                               | 268     | —                   |         |
| Marketing and customer development                    | 75                                 | 41      | 83                  | 134                               | 125     | 7                   |         |
| Operating losses                                      | 71                                 | 72      | (1 )                | 200                               | 161     | 24                  |         |
| Regulatory assessments                                | 67                                 | 80      | (16 )               | 179                               | 232     | (23 )               |         |
| Credit and collection services                        | 65                                 | 71      | (8 )                | 181                               | 182     | (1 )                |         |
| Equipment expense                                     | 49                                 | 44      | 11                  | 140                               | 132     | 6                   |         |
| Other staff expense                                   | 41                                 | 18      | NM                  | 75                                | 53      | 42                  |         |
| Consulting and legal fees                             | 40                                 | 34      | 18                  | 116                               | 77      | 51                  |         |
| Other real estate expense                             | 30                                 | 62      | (52 )               | 133                               | 195     | (32 )               |         |
| Amortization/impairment of goodwill/intangible assets | 17                                 | 11      | 55                  | 39                                | 34      | 15                  |         |
| Net loss/(gain) on debt extinguishment                | 2                                  | (1 )    | NM                  | 15                                | (3 )    | NM                  |         |
| Other expense                                         | 226                                | 124     | 82                  | 467                               | 375     | 25                  |         |
| Total noninterest expense                             | \$1,726                            | \$1,560 | 11                  | \$4,813                           | \$4,567 | 5                   |         |

<sup>1</sup>NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest expense increased by \$166 million, or 11%, compared to the three months ended September 30, 2011, and by \$246 million, or 5%, compared to the nine months ended September 30, 2011. The increase over the third quarter of 2011 was primarily due to a \$96 million write-down of affordable housing investments, the \$38 million charitable contribution of the Coke shares to the SunTrust Foundation, and \$29 million in severance expense. Higher compensation expenses were offset by reductions in credit-related cost and regulatory assessments. Compared to the nine months ended September 30, 2011, higher compensation expense related to improved business performance, higher marketing and customer development costs due to the Coke contribution, increased other staff expense due to the severance expense, a \$96 million increase as a result of valuation losses on the planned sale of affordable housing investments, and higher operating losses contributed to the increase. The increases were partially offset by a decline in regulatory assessments, other real estate expense, and credit and collection services.

Personnel expenses increased by \$30 million, or 4%, compared to the three months ended September 30, 2011, and by \$88 million, or 4%, compared to the nine months ended September 30, 2011. Increases in both periods were driven by a \$28 million and \$79 million, or 4%, respectively, increase in employee compensation expense related to higher compensation from improved business performance and modest annual merit increases. Additionally, the third quarter of 2012 also included an increase in incentive compensation cost due to the acceleration of deferred compensation related to organizational changes in certain businesses. Compared to September 30, 2011, full-time equivalent employees declined almost 1,500 and the use of contract labor increased, resulting in lower employee compensation

expense and higher contract labor costs.

Outside processing and software expenses increased \$7 million, or 4%, compared to the three months ended September 30, 2011, and \$43 million, or 9%, compared to the nine months ended September 30, 2011. The increase over the three and nine months ended 2011 was largely due to increased outsourced services and application hosting costs, as well as higher software maintenance charges.

Marketing and customer development expense increased \$34 million, or 83%, compared to the three months ended September 30, 2011, and \$9 million, or 7%, compared to the nine months ended September 30, 2011. The increase was attributable to

the \$38 million charitable contribution of the Coke shares in the third quarter of 2012, offset by lower advertising spending which fluctuates based on the timing of advertising campaigns.

Operating losses increased \$39 million, or 24%, compared to the nine months ended September 30, 2011. The increase was due to litigation-related expenses, which tend to fluctuate based on specific legal matters, as well as operating losses associated with mortgage-related activities.

Regulatory assessments expense decreased \$13 million, or 16%, compared to the three months ended September 30, 2011, and \$53 million, or 23%, compared to the nine months ended September 30, 2011. The decrease in both periods was due to a lower FDIC assessment rate, and for the nine month period, the expense was also impacted by a change in the assessment base.

Other staff expense increased \$23 million, compared to the three months ended September 30, 2011, and \$22 million, or 42%, compared to the nine months ended September 30, 2011, mainly due to the \$29 million in severance expense recognized in the third quarter of 2012 due to our continued effort to structure the organization in a manner that enables us to achieve our long-term efficiency ratio target of below 60%.

Consulting and legal expenses increased by \$6 million, or 18%, compared to the three months ended September 30, 2011, and by \$39 million, or 51%, compared to the nine months ended September 30, 2011. The increase was attributable to consulting costs associated with specific business initiatives, as well as costs to address the mortgage servicing Consent Order. For additional information regarding the Consent Order, see Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q and the "Nonperforming Assets" section of this MD&A.

Other real estate expense decreased \$32 million, or 52%, compared to the three months ended September 30, 2011, and \$62 million, or 32%, compared to the nine months ended September 30, 2011. The decrease was predominantly due to a decline in the OREO inventory resulting in lower loss provisioning, combined with a decrease in losses on sales of owned properties. Over time, as the economic environment improves, we expect that other real estate expense will continue to improve, but will likely remain elevated compared with the levels realized prior to the economic recession.

Amortization expense and impairment of goodwill and other intangible assets increased \$6 million, or 55%, compared to the three months ended September 30, 2011, and \$5 million, or 15%, compared to the nine months ended September 30, 2011, due to a \$7 million impairment loss recorded on our GenSpring reporting unit during the third quarter of 2012. Net loss on debt extinguishment increased by \$18 million compared to the nine months ended September 30, 2011, due to the \$13 million non-cash charges associated with the redemption of higher cost trust preferred securities, which were completed in June and July 2012.

Other noninterest expense increased by \$102 million, or 82%, compared to the three months ended September 30, 2011, and by \$92 million, or 25%, compared to the nine months ended September 30, 2011, mainly due to a \$96 million write-down recognized upon the transfer of affordable housing investments to held for sale in the third quarter of 2012 and \$17 million of real estate charges resulting from our reassessment of corporate real estate leases and holdings.

As we look to the fourth quarter, we expect our core expenses to be flat to down. Cyclically high costs are expected to continue their overall declining trend, and employee compensation is expected to decline. Conversely, certain volume and seasonal-driven line items (for example, outside processing and advertising) may increase.

## PROVISION FOR INCOME TAXES

The provision for income taxes includes both federal and state income taxes. For the three and nine months ended September 30, 2012, the provision for income taxes was \$551 million and \$710 million, resulting in an effective tax rate of 34% and 31%, respectively. For the three and nine months ended September 30, 2011, the provision for income tax was \$45 million and \$136 million, resulting in an effective tax rate of 17% and 19%, respectively. The increase in the effective tax rate for the three and nine months ended September 30, 2012 was primarily due to higher pre-tax earnings in these periods. The provision for income taxes differs from the provision using statutory rates primarily due to favorable permanent tax items such as income from lending to tax exempt entities and federal tax credits from community reinvestment activities. See additional discussion related to the provision for income taxes in Note 8, "Income Taxes," to the Consolidated Financial Statements in this Form 10-Q.



## LOANS

We report our loan portfolio in three segments: commercial, residential, and consumer. Loans are assigned to these segments based upon the type of borrower, collateral, and/or our underlying credit management processes. Additionally, within each segment, we have identified loan types, or classes, which further aggregate loans based upon common risk characteristics.

The commercial and industrial loan type includes loans secured by owner-occupied properties, corporate credit cards, and other wholesale lending activities. Commercial real estate and commercial construction loan types are based on investor exposures where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate. Commercial and construction loans secured by owner-occupied properties are classified as commercial and industrial loans, as the primary source of loan repayment for owner-occupied properties is business income and not real estate operations.

Residential mortgages consist of loans secured by 1-4 family homes, mostly prime first-lien loans, both guaranteed and nonguaranteed. Residential construction loans include residential lot loans and construction-to-perm loans. Home equity products consist of equity lines of credit and closed-end equity loans that may be in either a first lien or second lien position. At September 30, 2012, 31% of our home equity products were in a first lien position and 69% were in a second lien position. For home equity products in a second lien position, we service 29% of the loans that are senior to the home equity product.

Only a small percentage of home equity lines are scheduled to convert to amortizing during the remainder of 2012 and 2013, with 94% of home equity line balances scheduled to convert to amortization in 2014 or later, and over 50% in 2017 or later. It should be noted that a majority of accounts historically have not converted to amortizing. Based on historical trends, within 12 months of the end of their draw period, approximately 81% of accounts, and approximately 68% of accounts with a balance, closed or refinanced before or soon after converting. We perform credit management activities on home equity accounts to limit our loss exposure. These activities result in the suspension of available credit of most home equity second lien accounts when the first lien position is delinquent, including when the second lien is still current. In the third quarter, we initiated the monitoring of delinquency status of first mortgages serviced by other parties. Additionally, we actively monitor refreshed credit bureau scores of borrowers with second liens, as these scores are highly sensitive to first lien mortgage delinquency. At September 30, 2012, our home equity second lien loss severity was approximately 95%.

Based on guidance from our primary federal banking regulator, we elected to revise our credit policy related to the nonaccrual status of performing second lien loans and reclassified \$81 million performing home equity lines, loans, and mortgages that are subordinate to nonaccrual first lien loans as NPLs during the third quarter. Our methodology for calculating the ALLL considers the financial condition of the borrower, either through the direct knowledge we have from servicing the first mortgage or through the regular refreshing of FICO scores, which quickly respond to borrower delinquencies. Therefore, this change in policy did not have a material impact on the ALLL.

Additionally, we implemented a change to our credit policy to recognize charge-offs of second lien home equity loans, lines, and mortgages at 120 days past due based on a recent analysis indicating that a vast majority of these loans are ultimately charged-off. Previously these charge-offs were taken at 180 days past due. This change in policy resulted in \$65 million of incremental charge-offs during the three and nine months ended September 30, 2012.

The loan types comprising our consumer loan segment include guaranteed student loans, other direct (consisting primarily of direct auto loans, loans secured by negotiable collateral, and private student loans), indirect (consisting of loans secured by automobiles, marine, or recreational vehicles), and consumer credit cards. The composition of our loan portfolio is shown in the following table:

| Loan Portfolio by Types of Loans<br>(Dollars in millions) | September 30, 2012 | December 31, 2011 | Table 5<br>% Change <sup>2</sup> |
|-----------------------------------------------------------|--------------------|-------------------|----------------------------------|
| Commercial loans:                                         |                    |                   |                                  |
| Commercial & industrial                                   | \$52,407           | \$49,538          | 6 %                              |
| Commercial real estate                                    | 4,491              | 5,094             | (12 )                            |
| Commercial construction                                   | 808                | 1,240             | (35 )                            |
| Total commercial loans                                    | 57,706             | 55,872            | 3                                |
| Residential loans:                                        |                    |                   |                                  |
| Residential mortgages - guaranteed                        | 4,823              | 6,672             | (28 )                            |
| Residential mortgages - nonguaranteed <sup>1</sup>        | 23,925             | 23,243            | 3                                |
| Home equity products                                      | 15,019             | 15,765            | (5 )                             |
| Residential construction                                  | 805                | 980               | (18 )                            |
| Total residential loans                                   | 44,572             | 46,660            | (4 )                             |
| Consumer loans:                                           |                    |                   |                                  |
| Guaranteed student loans                                  | 5,823              | 7,199             | (19 )                            |
| Other direct                                              | 2,341              | 2,059             | 14                               |
| Indirect                                                  | 10,781             | 10,165            | 6                                |
| Credit cards                                              | 594                | 540               | 10                               |
| Total consumer loans                                      | 19,539             | 19,963            | (2 )                             |
| LHFI                                                      | \$121,817          | \$122,495         | (1 )%                            |
| LHFS                                                      | \$5,205            | \$2,353           | NM                               |

<sup>1</sup>Includes \$390 million and \$431 million of loans carried at fair value at September 30, 2012 and December 31, 2011, respectively.

<sup>2</sup> NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

#### Loans Held for Investment

LHFI have remained relatively flat through the nine months ended September 30, 2012, although, the composition of our loan portfolio has shifted. We have continued to make progress in our loan portfolio diversification strategy, as we have been successful in both growing targeted commercial and consumer balances and in reducing our exposure to certain higher risk residential and construction loans. Continuing to manage down our commercial and residential construction portfolios has resulted in a combined \$607 million decline in these portfolios during the nine months ended September 30, 2012, and an \$8.4 billion decrease since the end of 2008, which has driven a significant improvement in our risk profile over a relatively short period of time. Also contributing to this shift in loan portfolio composition were the sales and transfers to LHFS during the current year of \$2.7 billion in government guaranteed mortgages and student loans. Average loans during the three months ended September 30, 2012 totaled \$124.1 billion, while period-end loans totaled \$121.8 billion at September 30, 2012. Average loans were higher by \$2.3 billion compared to period-end loans, which was attributable to the sales and transfers of loans to LHFS during the third quarter, in addition to moderated loan portfolio growth during the third quarter of 2012. See the "Net Interest Income/Margin" section of this MD&A for more information regarding average loan balances.

Commercial loans increased \$1.8 billion, or 3%, during the nine months ended September 30, 2012. Growth was driven by commercial and industrial loans, as a diverse array of large corporate borrowers contributed to a \$2.9 billion, or 6%, increase from December 31, 2011. This increase in commercial and industrial loans was partially offset by decreases in commercial real estate loans and commercial construction loans. Commercial real estate loans declined \$603 million, or 12%, from December 31, 2011. The majority of the decline in this portfolio was due to continued runoff, resolution of problem loans, and the transfer of \$97 million of commercial NPLs to LHFS during the nine months ended September 30, 2012. Approximately half of these transferred loans were sold in the current

quarter, and we expect to sell the remainder in the fourth quarter of 2012. These decreases were partially offset by progress made in generating commercial real estate loan production during 2012, where we anticipate seeing some portfolio growth in coming quarters. Commercial construction loans decreased 35% from December 31, 2011, primarily as a result of our efforts to reduce risk levels by reducing existing construction exposure.

Given the stresses in the commercial real estate market, we continue to be proactive in our credit monitoring and management processes to provide early warning of problem loans. At least annually and more frequently if credit quality deteriorates, we

perform a thorough liquidity and contingency analysis of our commercial real estate portfolio to identify loans with an increased risk of default by providing a thorough view of borrowers' capacity and their ability to service their debt obligations. We also have strict limits and exposure caps on specific projects and borrowers for risk diversification. Due to the lack of new construction projects and the completion of many that were previously started, the aggregate amount of interest reserves that we are obligated to fund has declined from prior periods and are not considered significant relative to total loans outstanding. We believe that our investor-owned portfolio is appropriately diversified by borrower, geography, and property type. We typically underwrite commercial projects to credit standards that are more stringent than historical commercial MBS guidelines. Where appropriate, we have taken prudent actions with our clients to strengthen our credit position. These actions reflect market terms and structures and are intended to improve the client's financial ability to perform. Impaired loans are assessed relative to the client's and guarantor's, if any, ability to service the debt, the loan terms, and the value of the property. These factors are taken into consideration when formulating our ALLL through our credit risk rating and/or specific reserving processes.

Residential loans declined slightly during the nine months ended September 30, 2012, as a result of offsetting portfolio changes. We experienced declines across all residential loan classes except nonguaranteed residential mortgages, which grew \$682 million, or 3%, during the nine months ended September 30, 2012, despite transferring \$447 million of nonperforming mortgages to LHFS during the current quarter, most of which were sold during the current quarter, and we expect to sell the residual portion in the fourth quarter of 2012. The overall increase in our nonguaranteed residential mortgage portfolio was a result of lower interest rates generating new loan growth and greater origination volume, net of payoffs, offsetting much of the declines in the remaining residential classes. Nonguaranteed residential mortgage loan growth came predominantly from borrowers with high FICO scores (i.e. 760 or above) and lower LTV ratios. Conversely, government-guaranteed residential mortgages decreased \$1.8 billion, or 28%, during the nine months ended September 30, 2012, in part due to our decision to sell approximately \$1.0 billion of guaranteed residential mortgages during the second and third quarters. The government guaranteed mortgages transferred to LHFS in the third quarter are expected to be sold during the fourth quarter of 2012. Our election to sell a portion of this guaranteed portfolio was part of our continued active management of the balance sheet, as recent quarters have yielded organic growth and the higher-risk loan balances have declined.

Consumer loans decreased \$424 million, or 2%, during the nine months ended September 30, 2012, driven by the transfer of \$1.7 billion in government guaranteed student loans to LHFS during the year, \$1.4 billion of which were transferred during the third quarter. Approximately \$700 million of these \$1.4 billion of student loans were delinquent, and approximately \$1.0 billion of the student loans that moved to LHFS during the third quarter were sold in October 2012, with the remainder expected to be sold by the end of the fourth quarter. We also expect to transfer approximately \$600 million of additional student loans to LHFS in the fourth quarter of 2012 that did not meet the held for sale accounting criteria at September 30, 2012. We do not expect the gain or loss associated with the fourth quarter transfer to be material. Reduction in guaranteed student loans was partially offset by growth across all other consumer loan classes, with indirect and other direct loans increasing \$616 million, or 6%, and \$282 million, or 14%, respectively.

#### Loans Held for Sale

LHFS increased \$2.9 billion during the nine months ended September 30, 2012. The increase was primarily attributable to the transfer of \$1.4 billion of current and delinquent government guaranteed student loans and \$500 million of delinquent government guaranteed residential mortgages to LHFS during the third quarter of 2012, as we elected to actively market these loans for sale. While all of these transferred loans were included in LHFS at September 30, over half were subsequently sold in October, and the remainder is expected to be sold by year end. Also contributing to the increase in LHFS was the increase in closed mortgage loan volume as a result of the continued low interest rate environment and expanded refinance programs announced by the U.S. government in 2012.

#### Asset Quality

Our overall asset quality continued to demonstrate favorable trends during 2012, as NPL sales contributed to the decline in nonperforming assets and elevated net charge-offs during the third quarter. NPLs declined 40% from

December 31, 2011, and totaled \$1.7 billion at September 30, 2012. Net charge-offs increased \$161 million, or 46%, compared to the second quarter of 2012 and decreased \$285 million, or 18%, for the nine months ended September 30, 2012, compared to the same period in 2011. The annualized net charge-off ratio fell to 1.64% and 1.39% for the three and nine months ended September 30, 2012, compared to 1.69% and 1.82% for the same periods in 2011. Early stage delinquencies, excluding government-guaranteed loans, improved to 0.53% of total loans from 0.68% at December 31, 2011. Total early stage delinquencies also improved to 0.95% as of September 30, 2012 from 1.17% as of December 31, 2011. The gradual improvement in our asset quality trends have been driven by aggressively and intentionally reducing our higher-risk loan balances combined with actively managing the size and quality of our government guaranteed loan portfolio over the past several years. These actions, coupled with our loan sales announced during the third quarter of 2012 and our level of government guaranteed loans at

September 30, 2012, have resulted in a much improved risk profile and a loan portfolio that more closely aligns with our longer-term balance sheet targets.

Our nonperforming loans have declined significantly since their peak in 2009, down by \$3.8 billion, or almost 70%, and this quarter we took actions that further accelerated this decline by selling approximately \$500 million of NPLs. During the nine months ended September 30, 2012, NPLs decreased by \$1.2 billion, or 40%, which was evident across all of our loan classes, most prominently in our nonguaranteed residential mortgages. Commercial construction and commercial real estate NPLs also demonstrated significant reductions, declining by a combined \$384 million, or 66%, during the same period. At September 30, 2012, the percentage of NPLs to total loans was 1.42%, down 95 basis points from December 31, 2011.

Net charge-offs totaled \$511 million and \$1.3 billion during the three and nine months ended September 30, 2012, compared to \$492 million and \$1.6 billion during the same periods in 2011, respectively. Included in the current quarter was \$172 million in charge-offs associated with the sale of NPLs, as well as \$65 million in charge-offs from the second lien credit policy change, as further discussed in Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-Q and the "Allowance for Credit Losses" section of this MD&A. Excluding the net charge-offs associated with these NPL sales and the credit policy change, net charge-offs were \$274 million during the quarter, down \$76 million from the second quarter of 2012. Core net charge-offs have trended favorably for some time, and we expect that overall trend to continue in the coming quarters; however, we could see some increase in the fourth quarter as a result of normal seasonality, and the fact that our recoveries were about \$30 million higher this quarter than what we have experienced recently.

Early stage delinquencies reached their lowest level in several quarters at 0.95% at September 30, 2012, led by a 36 basis point decrease from year end in nonguaranteed residential loans. At September 30, 2012 all residential loan classes showed improvement compared to December 31, 2011, with residential construction demonstrating the largest improvement, improving 70 basis points. We would expect future early stage delinquency ratio improvements to be driven by residential loans, as they are still elevated by historical standards. The overall economy, particularly changes in unemployment, will influence any additional improvement.

In light of the continued favorable trends in credit quality, the ALLL slightly declined to \$2.2 billion at September 30, 2012, down \$218 million from December 31, 2011. The ALLL represented 1.84% of total loans at September 30, 2012, down 17 basis points from year end. Overall, we were pleased with our improved risk profile and positive trends in credit metrics. As we look forward, a recovering economy should continue to support our positive asset quality trends, with additional improvements propelled by the residential portfolio, as most of the commercial and consumer portfolios are currently approaching more normal credit metric levels.

We believe that our loan portfolio is well diversified by product, client, and geography throughout our footprint. However, our loan portfolio may be exposed to certain concentrations of credit risk which exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. See Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q for more information.

The following table shows the percentage breakdown of our total LHFI portfolio by geographic region:

| Loan Types by Geography  |                    |                   |                    |                   |                    |                   | Table 6 |   |
|--------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|---------|---|
| Geography:               | Commercial         |                   | Residential        |                   | Consumer           |                   |         |   |
|                          | September 30, 2012 | December 31, 2011 | September 30, 2012 | December 31, 2011 | September 30, 2012 | December 31, 2011 |         |   |
| Central <sup>1</sup>     | 27                 | % 28              | % 21               | % 21              | % 15               | % 14              |         | % |
| Florida <sup>2</sup>     | 19                 | 20                | 26                 | 27                | 18                 | 18                |         |   |
| MidAtlantic <sup>3</sup> | 25                 | 26                | 37                 | 36                | 26                 | 25                |         |   |
| Other                    | 29                 | 26                | 16                 | 16                | 41                 | 43                |         |   |
| Total                    | 100                | % 100             | % 100              | % 100             | % 100              | % 100             |         | % |

<sup>1</sup> The Central region includes Alabama, Arkansas, Georgia, Mississippi, and Tennessee.

<sup>2</sup> The Florida region includes Florida only.

<sup>3</sup> The MidAtlantic region includes the District of Columbia, Maryland, North Carolina, South Carolina, and Virginia.

## ALLOWANCE FOR CREDIT LOSSES

At September 30, 2012, the allowance for credit losses was \$2.3 billion, which consists of both the ALLL and the reserve for unfunded commitments. A rollforward of our allowance for credit losses, along with our summarized credit loss experience, is shown in the table below:

## Summary of Credit Losses

Table 7

## Experience

| (Dollars in millions)                         | Three Months Ended<br>September 30 |           |               | Nine Months Ended<br>September 30 |           |               |
|-----------------------------------------------|------------------------------------|-----------|---------------|-----------------------------------|-----------|---------------|
|                                               | 2012                               | 2011      | % Change<br>5 | 2012                              | 2011      | % Change<br>5 |
| Allowance for Credit Losses                   |                                    |           |               |                                   |           |               |
| Balance - beginning of period                 | \$2,350                            | \$2,795   | (16 )%        | \$2,505                           | \$3,032   | (17 )%        |
| (Benefit)/provision for unfunded commitments  | —                                  | (1 )      | (100 )        | 2                                 | (8 )      | NM            |
| Provision for loan losses:                    |                                    |           |               |                                   |           |               |
| Commercial loans                              | 127                                | 86        | 48            | 214                               | 318       | (33 )         |
| Residential loans                             | 300                                | 236       | 27            | 788                               | 810       | (3 )          |
| Consumer loans                                | 23                                 | 26        | (12 )         | 63                                | 66        | (5 )          |
| Total provision for loan losses               | 450                                | 348       | 29            | 1,065                             | 1,194     | (11 )         |
| Charge-offs:                                  |                                    |           |               |                                   |           |               |
| Commercial loans                              | (126 )                             | (214 )    | (41 )         | (346 )                            | (619 )    | (44 )         |
| Residential loans                             | (425 )                             | (282 )    | 51            | (1,001 )                          | (970 )    | 3             |
| Consumer loans                                | (34 )                              | (40 )     | (15 )         | (98 )                             | (125 )    | (22 )         |
| Total charge-offs                             | (585 )                             | (536 )    | 9             | (1,445 )                          | (1,714 )  | (16 )         |
| Recoveries:                                   |                                    |           |               |                                   |           |               |
| Commercial loans                              | 55                                 | 29        | 90            | 111                               | 99        | 12            |
| Residential loans                             | 10                                 | 3         | NM            | 21                                | 14        | 50            |
| Consumer loans                                | 9                                  | 12        | (25 )         | 30                                | 33        | (9 )          |
| Total recoveries                              | 74                                 | 44        | 68            | 162                               | 146       | 11            |
| Net charge-offs                               | (511 )                             | (492 )    | 4             | (1,283 )                          | (1,568 )  | (18 )         |
| Balance - end of period                       | \$2,289                            | \$2,650   | (14 )%        | \$2,289                           | \$2,650   | (14 )%        |
| Components:                                   |                                    |           |               |                                   |           |               |
| ALLL                                          | \$2,239                            | \$2,600   | (14 )%        |                                   |           |               |
| Unfunded commitments reserve <sup>1</sup>     | 50                                 | 50        | —             |                                   |           |               |
| Allowance for credit losses                   | \$2,289                            | \$2,650   | (14 )%        |                                   |           |               |
| Average loans                                 | \$124,080                          | \$115,638 | 7 %           | \$123,332                         | \$115,242 | 7 %           |
| Period-end loans outstanding                  | 121,817                            | 117,475   | 4             |                                   |           |               |
| Ratios:                                       |                                    |           |               |                                   |           |               |
| ALLL to period-end loans <sup>2,3</sup>       | 1.84                               | % 2.22    | % (17 )%      |                                   |           |               |
| ALLL to NPLs <sup>4</sup>                     | 130                                | 81        | 60            |                                   |           |               |
| ALLL to net charge-offs (annualized)          | 1.10x                              | 1.33x     | (17 )         |                                   |           |               |
| Net charge-offs to average loans (annualized) | 1.64                               | % 1.69    | % (3 )%       | 1.39                              | % 1.82    | % (24 )%      |

<sup>1</sup> The unfunded commitments reserve is recorded in other liabilities in the Consolidated Balance Sheets.

<sup>2</sup> \$390 million and \$452 million, respectively, of LHFI carried at fair value were excluded from period-end loans in the calculation.

<sup>3</sup> Excluding government-guaranteed loans of \$10.6 billion and \$9.8 billion, respectively, from period-end loans in the calculation results in ratios of 2.02% and 2.42%, respectively.

<sup>4</sup> \$14 million and \$26 million, respectively, of NPLs carried at fair value were excluded from NPLs in the calculation.

<sup>5</sup> NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

#### Charge-offs

Net charge-offs increased by \$19 million, or 4%, during the three months ended September 30, 2012, compared with the three months ended September 30, 2011. For the nine months ended September 30, 2012, net charge-offs declined by \$285 million, or 18%, versus the nine months ended September 30, 2011. The ratio of annualized net charge-offs to average loans was 1.64% and 1.39% during the three and nine months ended September 30, 2012, a reduction of 5 and 43 basis points, respectively, from the three and nine months ended September 30, 2011. The changes in net charge-offs during the three and nine months ended September 30, 2012 compared to the same periods during the prior year were largely driven by \$172 million in net

charge-offs associated with nonperforming residential mortgage and commercial real estate loan sales that were part of strategic actions announced in September, as well as the accelerated recognition of \$65 million in incremental charge-offs related to our second lien policy change. Prior to our second lien policy change, we charged-off second lien loans at 180 days past due, but during the third quarter we implemented a change in credit policy to recognize the charge-off at 120 days past due. Refer to Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-Q for additional policy information. These increases to charge-offs were partially offset by improvements in credit quality driving lower core net charge-offs. Core net charge-offs have trended favorably for some time, including during the third quarter when excluding the loan sales and policy change noted above, and we expect that overall trend to continue in the coming quarters. However, we may experience some increase in core net charge-offs during the fourth quarter from third quarter levels due to normal seasonality in the fourth quarter and higher recoveries we experienced this quarter, along with the possibility of a regulatory change in loss recognition of certain consumer bankruptcy-related loans.

#### Provision for Credit Losses

The total provision for credit losses includes the provision for loan losses, as well as the provision for unfunded commitments. The provision for loan losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. For the three months ended September 30, 2012, the provision for loan losses was up \$102 million, or 29%, compared to the three months ended September 30, 2011. For the nine months ended September 30, 2012, the provision for loan losses was down \$129 million, or 11%, compared to the nine months ended September 30, 2011. The change in the provision for loan losses for both periods was largely attributable to higher incremental charge-offs associated with nonperforming loan sales and our credit policy change; however, those incremental charge-offs were fully offset by improvements in core credit quality trends and lower core net charge-offs during the nine months ended September 30, 2012 compared to the same period in 2011.

For the three months ended September 30, 2012, there was no provision for unfunded commitments, compared to a benefit of \$1 million for the three months ended September 30, 2011. For the nine months ended September 30, 2012, the provision for unfunded commitments was \$2 million, compared to a benefit of \$8 million for the nine months ended September 30, 2011.

#### ALLL and Reserve for Unfunded Commitments

##### Allowance for Loan Losses by Loan Segment

| (Dollars in millions) | As of September 30, 2012 |                                   |                                    | As of December 31, 2011 |                                   |                                    | Table 8 |  |
|-----------------------|--------------------------|-----------------------------------|------------------------------------|-------------------------|-----------------------------------|------------------------------------|---------|--|
|                       | ALLL                     | Segment ALLL as a % of total ALLL | Loan segment as a % of total loans | ALLL                    | Segment ALLL as a % of total ALLL | Loan segment as a % of total loans |         |  |
| Commercial loans      | \$943                    | 42                                | % 47                               | % \$964                 | 39                                | % 46                               | %       |  |
| Residential loans     | 1,162                    | 52                                | 37                                 | 1,354                   | 55                                | 38                                 |         |  |
| Consumer loans        | 134                      | 6                                 | 16                                 | 139                     | 6                                 | 16                                 |         |  |
| Total                 | \$2,239                  | 100                               | % 100                              | % \$2,457               | 100                               | % 100                              | %       |  |

The ALLL decreased by \$218 million, or 9%, during the nine months ended September 30, 2012, with commercial, residential, and consumer loans-related ALLL declining \$21 million, \$192 million, and \$5 million, respectively. The decrease in ALLL was reflective of the continued improvement in core credit quality trends of our loan portfolio as evidenced by reductions in higher-risk balances, lower NPLs, and improved early stage delinquencies. Our risk profile continued to improve, as the amount of certain higher-risk loans continued to decline, while lower-risk government guaranteed loans comprised 9% of the portfolio as of September 30, 2012. The variables most impacting the ALLL continue to be unemployment, residential real estate property values, and the variability and relative strength of the housing market. As of September 30, 2012, the ALLL to period-end loans ratio was 1.84%, down 17 basis points from

December 31, 2011, consistent with continued improvement in asset quality. When excluding government guaranteed loans, the ALLL to period-end loans declined to 2.02% at September 30, 2012, compared to 2.27% at December 31, 2011. The ratio of the ALLL to total NPLs was 130% as of September 30, 2012, compared to 85% as of December 31, 2011. The increase in this ratio was primarily attributable to the \$1.2 billion decline in NPLs, partially offset by the reduction in ALLL.

The reserve for unfunded commitments was \$50 million as of September 30, 2012, an increase of \$2 million, up 4% compared to \$48 million at December 31, 2011.

## NONPERFORMING ASSETS

The following table presents our nonperforming assets:

|                                                                                                    | September 30,<br>2012 | December 31,<br>2011 | Table 9<br>% Change <sup>3</sup> |    |
|----------------------------------------------------------------------------------------------------|-----------------------|----------------------|----------------------------------|----|
| (Dollars in millions)                                                                              |                       |                      |                                  |    |
| Nonaccrual/NPLs:                                                                                   |                       |                      |                                  |    |
| Commercial loans                                                                                   |                       |                      |                                  |    |
| Commercial & industrial                                                                            | \$288                 | \$348                | (17                              | )% |
| Commercial real estate                                                                             | 119                   | 288                  | (59                              | )  |
| Commercial construction                                                                            | 75                    | 290                  | (74                              | )  |
| Total commercial NPLs                                                                              | 482                   | 926                  | (48                              | )  |
| Residential loans                                                                                  |                       |                      |                                  |    |
| Residential mortgages - nonguaranteed                                                              | 786                   | 1,392                | (44                              | )  |
| Home equity products                                                                               | 310                   | 338                  | (8                               | )  |
| Residential construction                                                                           | 129                   | 220                  | (41                              | )  |
| Total residential NPLs                                                                             | 1,225                 | 1,950                | (37                              | )  |
| Consumer loans                                                                                     |                       |                      |                                  |    |
| Other direct                                                                                       | 6                     | 7                    | (14                              | )  |
| Indirect                                                                                           | 18                    | 20                   | (10                              | )  |
| Total consumer NPLs                                                                                | 24                    | 27                   | (11                              | )  |
| Total nonaccrual/NPLs                                                                              | 1,731                 | 2,903                | (40                              | )  |
| OREO <sup>1</sup>                                                                                  | 304                   | 479                  | (37                              | )  |
| Other repossessed assets                                                                           | 10                    | 10                   | —                                |    |
| Nonperforming LHFS                                                                                 | 40                    | —                    | NM                               |    |
| Total nonperforming assets                                                                         | \$2,085               | \$3,392              | (39                              | )% |
| Accruing loans past due 90 days or more                                                            | \$1,104               | \$2,028              | (46                              | )% |
| Accruing LHFS past due 90 days or more                                                             | 1,127                 | 3                    | NM                               |    |
| TDRs:                                                                                              |                       |                      |                                  |    |
| Accruing restructured loans                                                                        | \$2,640               | \$2,820              | (6                               | )% |
| Nonaccruing restructured loans <sup>2</sup>                                                        | 482                   | 802                  | (40                              | )  |
| Ratios:                                                                                            |                       |                      |                                  |    |
| NPLs to total loans                                                                                | 1.42                  | % 2.37               | % (40                            | )% |
| Nonperforming assets to total loans plus OREO,<br>other repossessed assets, and nonperforming LHFS | 1.71                  | 2.76                 | (38                              | )  |

<sup>1</sup> Does not include foreclosed real estate related to loans insured by the FHA or the VA. Proceeds due from the FHA and the VA are recorded as a receivable in other assets until the funds are received and the property is conveyed. The receivable amount related to proceeds due from FHA or the VA totaled \$143 million and \$132 million at September 30, 2012 and December 31, 2011, respectively.

<sup>2</sup> Nonaccruing restructured loans are included in total nonaccrual/NPLs.

<sup>3</sup> NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Nonperforming assets decreased \$1.3 billion, or 39%, during the nine months ended September 30, 2012. Overall, the decrease was attributed to a \$1.2 billion, or 40%, decline in NPLs noted across all loan classes, and largely driven by a \$606 million, or 44%, reduction in the nonguaranteed residential mortgage NPLs. Much of the reduction in NPLs was attributable to the transfer of \$660 million of certain residential mortgage and commercial real estate NPLs to held for sale during 2012, and the completion of these sales during the second and third quarters of 2012, except for the remaining \$40 million in residential mortgage and commercial real estate NPLs that were held for sale as of September 30, 2012 and included in NPAs. The decline in NPLs was slightly offset by an \$81 million increase as a result of classifying as NPLs performing second lien loans that were subordinate to nonaccrual first lien loans. The

decision to transfer these performing second liens to NPLs was driven by regulatory guidance issued during 2012. At quarter end, our ratio of nonperforming loans to total loans was 1.42%, down from 2.37% at year end. Our ALLL to NPL ratio improved 45 basis points from year end and was 130% at September 30, 2012.

Real estate related loans comprise a significant portion of our overall nonperforming assets as a result of the condition of the U.S. housing market. The amount of time necessary to obtain control of residential real estate collateral in certain states,

primarily Florida, has remained elevated due to delays in the foreclosure process. These delays may continue to impact the resolution of real estate related loans within the nonperforming assets portfolio.

Nonaccrual loans, loans over 90 days past due and still accruing, and TDR loans, are problem loans or loans with potential weaknesses that are disclosed in the nonperforming assets table above. Loans with potential credit problems that may not otherwise be disclosed in this table include accruing criticized commercial loans, which are disclosed along with additional credit quality information in Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q. As of September 30, 2012 and December 31, 2011, there are no significant potential problem loans that are not otherwise disclosed.

During the third quarter of 2012, a national bank regulatory agency other than our primary federal regulator issued guidance related to certain loans discharged in Chapter 7 bankruptcy for which the borrower has not reaffirmed that may require them to be accounted for as TDRs and collateral dependent NPLs, regardless of their actual payment history and expected performance. At September 30, 2012, we had approximately \$350 million of performing loans that may be impacted by this guidance. Of these performing loans, approximately 30% are classified as accruing TDRs, approximately 78% are current and have made more than 6 payments, and approximately 96% are less than 60 days past due. We are working closely with our regulators to evaluate the impact of this new guidance and expect to finalize this analysis during the fourth quarter of 2012. This evaluation may result in additional TDRs and possible increases to NPLs, provision for loan losses, and charge-offs during the fourth quarter.

#### Nonperforming Loans

Nonperforming residential loans were the largest driver of the overall decline in NPLs, decreasing \$725 million, down 37%, during the nine months ended September 30, 2012. The reduction in nonguaranteed residential mortgage NPLs accounted for \$606 million of this decline, primarily due to the transfer of \$563 million of residential mortgage NPLs to LHFS during 2012, the majority of which were sold prior to September 30, 2012. Reductions in residential construction and home equity NPLs also contributed to the decline, decreasing \$91 million and \$28 million, respectively, mainly attributable to net charge-offs and lower inflows into NPLs. We expect some variability in inflows of nonperforming residential loans during the remainder of 2012, primarily as a result of mortgage loan repurchases from investors. See additional discussion of mortgage loan repurchases in Note 11, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in this Form 10-Q and the "Noninterest Income" section of this MD&A.

Nonperforming commercial loans also contributed to the reduction in NPLs, declining \$444 million during the nine months ended September 30, 2012. Specifically, the 48% reduction in nonperforming commercial loans was predominantly driven by a \$215 million reduction in commercial construction NPLs and a \$169 million reduction in commercial real estate NPLs, which included the transfer of \$97 million of commercial real estate NPLs to LHFS, as the Company elected to actively market these loans for sale during the third quarter of 2012. Approximately half of the transferred loans were sold by September 30, 2012 with the remainder expected to be sold in the fourth quarter. As we move through current commercial real estate market conditions, we continue to expect some variability in inflows of commercial real estate NPLs.

Interest income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis. Interest income on commercial nonaccrual loans is not typically recognized until after the principal has been reduced to zero. We recognized \$8 million and \$7 million of interest income related to nonaccrual loans for the three months ended September 30, 2012 and 2011, respectively, and \$22 million and \$25 million for the nine months ended September 30, 2012 and 2011, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$37 million and \$58 million during the three months ended September 30, 2012 and 2011, respectively, and \$123 million and \$194 million for the nine months ended September 30, 2012 and 2011, respectively, would have been recognized.

#### Other Nonperforming Assets

OREO decreased \$175 million, or 37%, during the nine months ended September 30, 2012. The decline consisted of net decreases of \$92 million in residential construction related properties, \$66 million in residential homes, and \$17 million in commercial properties. During the nine months ended September 30, 2012 and 2011, sales of OREO

resulted in proceeds of \$362 million and \$474 million, respectively, contributing to net gains on sales of OREO of \$18 million and less than \$1 million, respectively, inclusive of valuation reserves, primarily related to lots and land evaluated under the pooled approach. Sales of OREO and the related gains or losses are highly dependent on our disposition strategy and buyer opportunities. See Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for more information. Gains and losses on the sale of OREO are recorded in other real estate expense in the Consolidated Statements of Income. Geographically, most of our OREO properties are located in Georgia, Florida, and North Carolina. Residential properties and land comprised 40% and 33%, respectively, of OREO as of September 30, 2012; the remainder is related to commercial and other properties. Upon foreclosure, the values of these properties were reevaluated and, if necessary, written

down to their then-current estimated value, less costs to sell. Any further declines in home prices could result in additional losses on these properties. We are actively managing and disposing of these foreclosed assets to minimize future losses.

At September 30, 2012 and December 31, 2011, total accruing loans past due ninety days or more included LHFI and LHFS and totaled \$2.2 billion and \$2.0 billion, respectively. Accruing LHFI past due ninety days or more decreased by \$924 million, or 46%, during the nine months ended September 30, 2012, while accruing LHFS past due ninety days or more increased by \$1.1 billion during the same period. The changes were primarily driven by the transfer of certain government guaranteed residential mortgages and student loans from LHFI to LHFS during the third quarter as part of our strategic actions announced in September. The majority of our past due accruing loans are residential mortgages and student loans that are fully guaranteed by a federal agency, which comprised 97% of past due accruing loans at both September 30, 2012 and December 31, 2011. During the same periods, \$63 million and \$57 million, respectively, of accruing loans past due ninety days or more were not guaranteed.

At the end of 2010, we completed an internal review of STM's residential foreclosure processes. Since that review, we have continued to improve upon our processes as a result of our review. Additionally, following the Federal Reserve's horizontal review of the nation's largest mortgage loan servicers, SunTrust and other servicers entered into Consent Orders with the FRB. We describe the Consent Order in Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q and a copy of it was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Consent Order requires us to improve certain processes and to retain an independent consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010 to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and prepare a written report detailing the findings. Additionally, borrowers who had a residential foreclosure action pending during this two-year review period have been solicited through advertising and direct mailings to request a review by the independent consultant of their case if they believe they incurred a financial injury as a result of errors, misrepresentations or other deficiencies in the foreclosure process. The deadline for submitting requests for review has been extended to December 31, 2012, and direct mail, internet, and media efforts to reach borrowers will continue. These requirements prescribed by the Consent Order may result in additional delays in the foreclosure process at a time when the time required for foreclosure upon residential real estate collateral in certain states, primarily Florida, continues to be elevated. These delays in the foreclosure process have adversely affected us by increasing our expenses related to carrying such assets, such as taxes, insurance, and other carrying costs, and by exposing us to losses as a result of potential additional declines in the value of such collateral. These delays have also resulted, in some cases, in an inability to meet certain investor foreclosure timelines for loans we service for others, which has resulted, and is expected to continue to result, in the assessment of compensatory fees.

#### Restructured Loans

To maximize the collection of loan balances, we evaluate troubled loans on a case-by-case basis to determine if a loan modification would be appropriate. We pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. For loans secured by residential real estate, if the client demonstrates a loss of income such that the client cannot reasonably support a modified loan, we may pursue short sales and/or deed-in-lieu arrangements. For loans secured by income producing commercial properties, we perform a rigorous and ongoing programmatic review. We review a number of factors, including cash flows, loan structures, collateral values, and guarantees to identify loans within our income producing commercial loan portfolio that are most likely to experience distress. Based on our review of these factors and our assessment of overall risk, we evaluate the benefits of proactively initiating discussions with our clients to improve a loan's risk profile. In some cases, we may renegotiate terms of their loans so that they have a higher likelihood of continuing to perform. To date, we have restructured loans in a variety of ways to help our clients service their debt and to mitigate the potential for additional losses. The primary restructuring methods being offered to our residential clients are reductions in interest rates and extensions of terms. For commercial loans, the primary restructuring method is the extensions of terms.

Accruing loans with modifications deemed to be economic concessions resulting from borrower difficulties are reported as accruing TDRs. Nonaccruing loans that are modified and demonstrate a history of repayment performance

in accordance with their modified terms are reclassified to accruing restructured status, typically after six months of repayment performance. Generally, once a residential loan becomes a TDR, we expect that the loan will continue to be reported as a TDR for its remaining life even after returning to accruing status as the modified rates and terms at the time of modification were typically more favorable than those generally available in the market at the time of the modification. We note that some restructurings may not ultimately result in the complete collection of principal and interest (as modified by the terms of the restructuring), culminating in default, which could result in additional incremental losses. These potential incremental losses have been factored into our overall ALLL estimate through the use of loss forecasting methodologies. Roll rate models used to forecast losses on the residential mortgage and consumer TDRs are calculated and analyzed separately using their own portfolio attributes and history, thereby reflecting an increased PD compared to loans that have not been restructured. The level of re-

defaults will likely be affected by future economic conditions. At September 30, 2012 and December 31, 2011, specific reserves included in the ALLL for residential TDRs were \$328 million and \$405 million, respectively. See Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q for more information.

The following tables display our residential real estate TDR portfolio by modification type and payment status. Guaranteed loans that have been repurchased from Ginnie Mae under an early buyout clause and subsequently modified have been excluded from the table. Such loans totaled \$51 million and \$65 million at September 30, 2012 and December 31, 2011, respectively.

#### Selected Residential TDR Data

Table 10

| (Dollars in millions)             | As of September 30, 2012 |                         |         | Nonaccruing TDRs |                         |       |
|-----------------------------------|--------------------------|-------------------------|---------|------------------|-------------------------|-------|
|                                   | Accruing TDRs            |                         |         |                  |                         |       |
|                                   | Current                  | Delinquent <sup>1</sup> | Total   | Current          | Delinquent <sup>1</sup> | Total |
| Rate reduction                    | \$441                    | \$38                    | \$479   | \$23             | \$48                    | \$71  |
| Term extension                    | 17                       | 7                       | 24      | 1                | 10                      | 11    |
| Rate reduction and term extension | 1,681                    | 219                     | 1,900   | 41               | 258                     | 299   |
| Other <sup>2</sup>                | 18                       | 3                       | 21      | 1                | 4                       | 5     |
| Total                             | \$2,157                  | \$267                   | \$2,424 | \$66             | \$320                   | \$386 |

| (Dollars in millions)             | As of December 31, 2011 |                         |         | Nonaccruing TDRs |                         |       |
|-----------------------------------|-------------------------|-------------------------|---------|------------------|-------------------------|-------|
|                                   | Accruing TDRs           |                         |         |                  |                         |       |
|                                   | Current                 | Delinquent <sup>1</sup> | Total   | Current          | Delinquent <sup>1</sup> | Total |
| Rate reduction                    | \$473                   | \$40                    | \$513   | \$16             | \$69                    | \$85  |
| Term extension                    | 20                      | 10                      | 30      | 2                | 24                      | 26    |
| Rate reduction and term extension | 1,682                   | 290                     | 1,972   | 35               | 439                     | 474   |
| Other <sup>2</sup>                | 20                      | 3                       | 23      | 2                | 15                      | 17    |
| Total                             | \$2,195                 | \$343                   | \$2,538 | \$55             | \$547                   | \$602 |

<sup>1</sup> TDRs considered delinquent for purposes of this table were those at least thirty days past due.

<sup>2</sup> Primarily consists of extensions and deficiency notes.

At September 30, 2012, our total TDR portfolio was \$3.1 billion and was composed of \$2.8 billion, or 90%, of residential loans (predominantly first and second lien residential mortgages and home equity lines of credit), \$246 million, or 8%, of commercial loans (predominantly income-producing properties), and \$66 million, or 2%, of direct consumer loans.

Total TDRs declined \$500 million during the nine months ended September 30, 2012. Nonaccruing TDRs were a significant portion of this total reduction, down \$320 million, or 40%, during the nine months ended September 30, 2012. Accruing TDRs also contributed to the overall decline in TDRs, decreasing by \$180 million. Reductions were primarily driven by loan sale transactions and net charge-offs during the third quarter, as well as repayments and a general decrease in the loan balances modified during the year. See additional discussion in Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q.

Interest income on restructured loans that have met sustained performance criteria and have been returned to accruing status is recognized according to the terms of the restructuring. Such interest income recorded was \$28 million and \$29 million for the three months ended September 30, 2012 and 2011, respectively, and \$85 million and \$84 million for the nine months ended September 30, 2012 and 2011, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$38 million and \$40 million for the three months ended September 30, 2012 and 2011, respectively, and \$115 million and \$116 million for the nine months ended September 30, 2012 and 2011, respectively, would have been recognized.



## SELECTED FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following is a discussion of the more significant financial assets and financial liabilities that are currently carried at fair value on the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011. For a complete discussion of our fair value elections and the methodologies used to estimate the fair values of our financial instruments, refer to Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q.

## Trading Assets and Liabilities

Table 11

| (Dollars in millions)                  | September 30, 2012 | December 31, 2011 |
|----------------------------------------|--------------------|-------------------|
| Trading Assets                         |                    |                   |
| U.S. Treasury securities               | \$113              | \$144             |
| Federal agency securities              | 427                | 478               |
| U.S. states and political subdivisions | 24                 | 54                |
| MBS - agency                           | 667                | 412               |
| MBS - private                          | 1                  | 1                 |
| CDO/CLO securities                     | 49                 | 45                |
| ABS                                    | 37                 | 37                |
| Corporate and other debt securities    | 373                | 344               |
| CP                                     | 60                 | 229               |
| Equity securities                      | 100                | 91                |
| Derivatives <sup>1</sup>               | 2,347              | 2,414             |
| Trading loans <sup>2</sup>             | 2,183              | 2,030             |
| Total trading assets                   | \$6,381            | \$6,279           |
| Trading Liabilities                    |                    |                   |
| U.S. Treasury securities               | \$473              | \$569             |
| MBS - agency                           | 1                  | —                 |
| Corporate and other debt securities    | 200                | 77                |
| Equity securities                      | 9                  | 37                |
| Derivatives <sup>1</sup>               | 775                | 1,123             |
| Total trading liabilities              | \$1,458            | \$1,806           |

<sup>1</sup> Amounts are offset with cash collateral received from or deposited with derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements.

<sup>2</sup> Includes loans related to TRS.

## Trading Assets and Liabilities

Trading assets increased \$102 million, or 2%, since December 31, 2011, driven by normal changes in trading portfolio product mix including agency mortgage-backed securities and trading loans. This increase was predominantly offset by a decrease in CP and derivatives. Gross derivative assets decreased \$230 million, but were partially offset by a decrease of \$163 million in cash collateral. See Note 10, "Derivative Financial Instruments," and Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for additional information on trading assets.

Trading liabilities decreased \$348 million, or 19%, since December 31, 2011, predominantly due to a decrease in derivatives and U.S. Treasury securities, offset by an increase in corporate and other debt securities as a result of normal business activity. Gross derivative liabilities decreased \$178 million, due to a \$189 million decline as a result of the early termination of the hedges related to the sale of the Coke common stock, and an increase of \$170 million in cash collateral. See Note 10, "Derivative Financial Instruments," and Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for additional information on trading liabilities.



## Securities Available for Sale

Table 12

| (Dollars in millions)                  | September 30, 2012 |                  |                   | Fair Value |
|----------------------------------------|--------------------|------------------|-------------------|------------|
|                                        | Amortized Cost     | Unrealized Gains | Unrealized Losses |            |
| U.S. Treasury securities               | \$213              | \$11             | \$—               | \$224      |
| Federal agency securities              | 1,713              | 89               | —                 | 1,802      |
| U.S. states and political subdivisions | 343                | 18               | 6                 | 355        |
| MBS - agency                           | 16,705             | 881              | —                 | 17,586     |
| MBS - private                          | 213                | 4                | —                 | 217        |
| ABS                                    | 260                | 5                | 4                 | 261        |
| Corporate and other debt securities    | 42                 | 4                | —                 | 46         |
| Other equity securities <sup>1</sup>   | 975                | 1                | —                 | 976        |
| Total securities AFS                   | \$20,464           | \$1,013          | \$10              | \$21,467   |

<sup>1</sup>At September 30, 2012, other equity securities included the following securities at cost: \$432 million in FHLB of Atlanta stock, \$401 million in Federal Reserve Bank stock, and \$141 million in mutual fund investments.

| (Dollars in millions)                  | December 31, 2011 |                  |                   | Fair Value |
|----------------------------------------|-------------------|------------------|-------------------|------------|
|                                        | Amortized Cost    | Unrealized Gains | Unrealized Losses |            |
| U.S. Treasury securities               | \$671             | \$23             | \$—               | \$694      |
| Federal agency securities              | 1,843             | 89               | —                 | 1,932      |
| U.S. states and political subdivisions | 437               | 21               | 4                 | 454        |
| MBS - agency                           | 20,480            | 743              | —                 | 21,223     |
| MBS - private                          | 252               | —                | 31                | 221        |
| CDO/CLO securities                     | 50                | —                | —                 | 50         |
| ABS                                    | 460               | 11               | 7                 | 464        |
| Corporate and other debt securities    | 49                | 2                | —                 | 51         |
| Coke common stock                      | —                 | 2,099            | —                 | 2,099      |
| Other equity securities <sup>1</sup>   | 928               | 1                | —                 | 929        |
| Total securities AFS                   | \$25,170          | \$2,989          | \$42              | \$28,117   |

<sup>1</sup>At December 31, 2011, other equity securities included the following securities at cost: \$342 million in FHLB of Atlanta stock, \$398 million in Federal Reserve Bank stock, and \$187 million in mutual fund investments.

## Securities Available for Sale

The securities AFS portfolio is managed as part of our overall ALM process to optimize income and portfolio value over an entire interest rate cycle while mitigating the associated risks. The size of the securities portfolio, at fair value, was \$21.5 billion as of September 30, 2012, a decrease of \$6.7 billion, or 24%, compared with December 31, 2011. Changes in the size and composition of the portfolio during the nine months reflect our efforts to maintain a high quality portfolio while managing our interest rate risk and liquidity risk profile. During the first nine months of 2012, we repositioned U.S. Treasury and Federal agency securities into agency MBS in an effort to capture better relative value. Subsequently, we reduced the size of the securities portfolio by selling low coupon agency MBS and not reinvesting principal cash flow due to the lack of attractive investment alternatives. Additionally, during the three months ended September 30, 2012, we disposed of the Coke common stock through a combination of market sales, sales to the Coke Counterparty to the Agreements, and a charitable contribution. The sales, charitable contribution, and the early termination of the Agreements resulted in net securities gains of \$1.9 billion and the charitable contribution also increased noninterest expense by \$38 million. During the nine months ended September 30, 2012, we recorded \$2.0 billion in net realized gains from the sale of securities AFS as a result of the aforementioned activities in our portfolio, compared with net realized gains of \$98 million during the same period in 2011, including \$7 million and \$2 million of OTTI during 2012 and 2011, respectively. For additional information on composition and valuation assumptions related to securities AFS, see Note 2, "Securities Available for Sale," and the "Trading Assets and Securities Available for Sale" section of Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q.

At September 30, 2012, the carrying value of securities AFS reflected \$1.0 billion in net unrealized gains. At December 31, 2011, the carrying value of securities AFS reflected \$2.9 billion in net unrealized gains, which included a \$2.1 billion unrealized gain from our shares of Coke common stock and an \$848 million net unrealized gain on the remainder of the portfolio. The net unrealized gains, excluding the impact from the Coke stock, increased due to the market value increase on the remainder

of the portfolio experienced during the first nine months of 2012. The Coke common stock was subject to variable forward agreements which are discussed in Note 10, "Derivative Financial Instruments," to the Consolidated Financial Statements and in the "Investment in Common shares of the Coca-Cola Company" in this MD&A.

For the three months ended September 30, 2012, the average yield on a FTE basis for the securities AFS portfolio was 2.78%, compared with 3.33% from the three months ended September 30, 2011. For the nine months ended September 30, 2012, the average yield on a FTE basis for the securities AFS portfolio was 3.05%, compared with 3.30% for the nine months ended September 30, 2011. Prepayments and maturities of higher yielding securities, reinvestment of principal cash flow at lower yields, and the foregone dividend income on the Coke common stock, which was approximately \$15 million per quarter, drove the decline in yield on securities AFS. Our total investment securities portfolio had an effective duration of 1.8 years as of September 30, 2012, compared to 2.3 years as of December 31, 2011. Effective duration is a measure of price sensitivity of a bond portfolio to an immediate change in market interest rates, taking into consideration embedded options. An effective duration of 1.8 years suggests an expected price change of 1.8% for a one percent instantaneous change in market interest rates.

The credit quality and liquidity profile of the securities portfolio remained strong at September 30, 2012, and, consequently, we have the flexibility to respond to changes in the economic environment and take actions as opportunities arise to manage our interest rate risk profile and balance liquidity against investment returns. Over the longer term, the size and composition of the investment portfolio will reflect balance sheet trends and our overall liquidity and interest rate risk management objectives. Accordingly, the size and composition of the investment portfolio could change meaningfully over time.

## INVESTMENT IN COMMON SHARES OF THE COCA-COLA COMPANY

### Background

Prior to September 2012, we had owned common shares of Coke since 1919, when one of our predecessor institutions participated in the underwriting of Coke's IPO and received common shares of Coke in lieu of underwriting fees. These shares had grown in value over the past 93 years and had been classified as securities AFS with unrealized gains, net of tax, recorded as a component of shareholders' equity. Because of the low accounting cost basis of these shares, we had accumulated significant unrealized gains in shareholders' equity. As of December 31, 2011, we owned 30 million Coke shares with an accounting cost basis of approximately \$69,000 and a fair market value of \$2.1 billion. On August 10, 2012, we received an additional 30 million Coke shares as a result of the Coke Stock Split. As of September 30, 2012, we had divested our ownership of Coke shares through sales in the market, sales to the counterparty to the Agreements discussed below, and a charitable contribution of 1 million shares.

### Termination of Agreements Involving Coca-Cola Stock

In 2008, we entered into two Agreements with an unaffiliated third party. Pursuant to the terms of the Agreements, we were to deliver to the counterparty either a variable number of our shares in Coke or an equivalent amount of cash in lieu of such shares on the 2014 and 2015 settlement dates. The counterparty was to deliver to us cash of no less than a floor price of approximately \$19 per Coke share, or approximately \$1.16 billion in the aggregate (the "Minimum Proceeds"), and no more than a ceiling price of approximately \$33 per Coke share (prices are adjusted for the Coke Stock Split). Because we expected to sell our shares around the settlement date, either under the terms of the Agreements or in another market transaction, the Federal Reserve granted us Tier 1 common capital credit of approximately \$730 million, which was reflective of the after-tax value of the Coke shares at the floor price. By retaining the shares from 2008 until now, we were able to continue receiving the Coke dividends and participate in the price appreciation of the Coke shares.

We recently reevaluated these holdings in light of the recently issued regulatory proposal regarding Basel III, which, as proposed, would increase the risk-weighted assets of equity holdings and introduce potential volatility to our regulatory capital ratios via fluctuations in AOCI, and the negative implications associated with equity securities in assumed adverse economic scenarios within future CCAR assessments. Following this review, we and the counterparty accelerated the termination of the Agreements.

Contemporaneously with entering into the Agreements in 2008, the Coke Counterparty invested in senior unsecured promissory notes issued by the Bank and SunTrust (collectively, the “Notes”) in a private placement in an aggregate principal amount equal to the Minimum Proceeds. Upon termination of the Agreements, we also repurchased the Notes from the counterparty, resulting in a \$2 million loss recorded as an extinguishment of debt in our Consolidated Statements of Income for the three months ended September 30, 2012. As a result of the Coke stock sales, charitable contribution, termination of the Agreements, and repurchase of the Notes, we recorded a pre-tax gain of approximately \$1.9 billion during the three months ended September 30, 2012.

## BORROWINGS

## Short-Term Borrowings

Table 13

|                                                             | As of September 30, 2012 |      |   | Three Months Ended September 30, 2012 |      |                                      | Nine Months Ended September 30, 2012 |      |                                      |
|-------------------------------------------------------------|--------------------------|------|---|---------------------------------------|------|--------------------------------------|--------------------------------------|------|--------------------------------------|
|                                                             |                          |      |   | Daily Average                         |      |                                      | Daily Average                        |      |                                      |
| (Dollars in millions)                                       | Balance                  | Rate |   | Balance                               | Rate | Maximum Outstanding at any Month-End | Balance                              | Rate | Maximum Outstanding at any Month-End |
| Funds purchased <sup>1</sup>                                | \$680                    | 0.09 | % | \$701                                 | 0.11 | % \$821                              | \$793                                | 0.11 | % \$908                              |
| Securities sold under agreements to repurchase <sup>1</sup> | 1,630                    | 0.18 |   | 1,461                                 | 0.18 | 1,630                                | 1,580                                | 0.17 | 1,781                                |
| FHLB advances                                               | 4,500                    | 0.31 |   | 4,886                                 | 0.30 | 5,000                                | 5,832                                | 0.23 | 9,000                                |
| Other short-term borrowings <sup>2</sup>                    | 2,011                    | 0.33 |   | 1,778                                 | 0.31 | 2,011                                | 1,757                                | 0.34 | 2,011                                |

|                                                             | As of September 30, 2011 |      |   | Three Months Ended September 30, 2011 |      |                                      | Nine Months Ended September 30, 2011 |      |                                      |
|-------------------------------------------------------------|--------------------------|------|---|---------------------------------------|------|--------------------------------------|--------------------------------------|------|--------------------------------------|
|                                                             |                          |      |   | Daily Average                         |      |                                      | Daily Average                        |      |                                      |
| (Dollars in millions)                                       | Balance                  | Rate |   | Balance                               | Rate | Maximum Outstanding at any Month-End | Balance                              | Rate | Maximum Outstanding at any Month-End |
| Funds purchased <sup>1</sup>                                | \$998                    | 0.06 | % | \$1,069                               | 0.11 | % \$1,090                            | \$1,061                              | 0.14 | % \$1,169                            |
| Securities sold under agreements to repurchase <sup>1</sup> | 2,016                    | 0.14 |   | 2,170                                 | 0.15 | 2,182                                | 2,245                                | 0.15 | 2,411                                |
| FHLB advances                                               | 1,000                    | 0.14 |   | 111                                   | 0.15 | 1,000                                | 37                                   | 0.15 | 1,000                                |
| Other short-term borrowings <sup>2</sup>                    | 2,218                    | 0.30 |   | 2,952                                 | 0.41 | 3,190                                | 2,883                                | 0.40 | 3,190                                |

<sup>1</sup>Funds purchased and securities sold under agreements to repurchase mature overnight or at a fixed maturity generally not exceeding three months. Rates on overnight funds reflect current market rates. Rates on fixed maturity borrowings are set at the time of borrowings.

<sup>2</sup>Other short-term borrowings includes master notes, dealer collateral, U.S. Treasury demand notes, CP, and other short-term borrowed funds.

## Short-Term Borrowings

As of September 30, 2012, our period-end short-term borrowings increased by \$2.6 billion, or 42%, from September 30, 2011, due predominantly to a \$3.5 billion increase in short-term FHLB advances as a result of utilization of the FHLB advance program as an alternative for shorter term funding. The increase was partially offset by a \$386 million decrease in securities sold under agreement to repurchase, a decrease of \$318 million in funds purchased, and a \$160 million decrease in U.S. Treasury demand notes. Average short-term borrowings increased by \$2.5 billion, or 40%, compared to the third quarter of 2011. The increase was primarily attributable to increased average FHLB advances of \$4.8 billion, partially offset by a decline in average securities sold under agreements to repurchase of \$709 million, a decrease in average dealer collateral of \$614 million, which was reclassified in the third quarter of 2011 to offset derivatives, a decrease in average funds purchased of \$368 million, and a \$149 million decline in average U.S. Treasury demand notes.

For the first nine months of 2012, average short-term borrowings increased by \$3.7 billion, or 60%, compared to the nine months ended September 30, 2011. The increase was primarily attributable to increased average FHLB advances of \$5.8 billion, partially offset by a decrease in average dealer collateral of \$732 million, which was reclassified in the third quarter of 2011 to offset derivatives, a decline in average securities sold under agreements to repurchase of \$665

million, a decrease in average funds purchased of \$268 million, and a decrease of \$135 million in average U.S. Treasury demand notes. For the three and nine months ended September 30, 2012 and 2011, our period-end outstanding balances for funds purchased, securities sold under agreements to repurchase, FHLB advances, and other short-term borrowings were not materially different from maximum monthly outstanding balances or from the daily averages.

For the nine months ended September 30, 2012, our period-end FHLB advances were materially different than the maximum monthly outstanding balance as a result of higher holdings of FHLB borrowings at certain points during the nine months ended September 30, 2012, due to ordinary balance sheet management practices. There were no short-term FHLB advances outstanding during the three and nine months ended September 30, 2011. The increases in short-term borrowings were primarily the result of utilization of the FHLB advance program as an alternative to other shorter term funding and more expensive longer term funding.

### Long-Term Debt

During the nine months ended September 30, 2012, our period-end outstanding balances of long-term debt decreased by \$143 million, which was primarily due to an increase in long-term FHLB advances of \$4.0 billion, as part of an interest rate risk management strategy, offset by the repurchase of \$1.2 billion of fixed rate subordinated notes that were due in 2036 and 2068, the extinguishment of \$1.2 billion of ten-year floating rate senior unsubordinated notes related to the Coke transaction, the maturity and redemption of \$1.4 billion of floating rate senior unsubordinated notes and \$589 million of five-year floating rate senior foreign denominated unsubordinated notes. Consequently, the change in our debt mix has resulted in lower rates paid.

Average long-term debt decreased by \$1.9 billion, or 14%, compared to the third quarter of 2011. The decrease was primarily attributable to a decline in average unsubordinated other long-term debt of \$3.1 billion, a decrease in average unsubordinated foreign-denominated long-term debt of \$1.7 billion, and a decrease in average subordinated other long-term debt of \$1.3 billion, partially offset by increased average long-term FHLB advances of \$4.0 billion. For the first nine months of 2012, average long-term debt decreased by \$1.5 billion, or 11%, compared to the nine months ended September 30, 2011. The decrease was primarily attributable to a \$1.9 billion decline in average unsubordinated other long-term debt, a decrease of \$1.3 billion in average unsubordinated foreign-denominated long-term debt, a decline of \$726 million in average subordinated other long-term debt, partially offset by an increase in average long-term FHLB advances of \$2.6 billion.

As of September 30, 2012, we have no outstanding government guaranteed debt issued under the FDIC's Temporary Liquidity Guarantee Program. There have been no other material changes in our long-term debt as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

### CAPITAL RESOURCES

Our primary federal regulator, the Federal Reserve, measures capital adequacy within a framework that makes capital requirements sensitive to the risk profiles of individual banking companies. The guidelines weight assets and off-balance sheet risk exposures (RWA) according to predefined classifications, creating a base from which to compare capital levels. Tier 1 capital primarily includes realized equity and qualified preferred instruments, less purchase accounting intangibles such as goodwill and core deposit intangibles. Total capital consists of Tier 1 capital and Tier 2 capital, which includes qualifying portions of subordinated debt, ALLL up to a maximum of 1.25% of RWA, and 45% of the unrealized gain on equity securities. Additionally, mark-to-market adjustments related to our estimated credit spreads for debt and index linked CDs accounted for at fair value are excluded from regulatory capital.

Both the Company and the Bank are subject to minimum Tier 1 capital and Total capital ratios of 4% and 8%, respectively, of RWA. To be considered "well-capitalized," ratios of 6% and 10%, respectively, are required. Additionally, the Company and the Bank are subject to requirements for the Tier 1 leverage ratio, which measures Tier 1 capital against average total assets, as calculated in accordance with regulatory guidelines. The minimum and well-capitalized leverage ratios are 3% and 5%, respectively.

In September 2010, the BCBS announced new regulatory capital requirements (commonly referred to as "Basel III") aimed at substantially strengthening existing capital requirements, through a combination of higher minimum capital requirements, new capital conservation buffers, and more stringent definitions of capital and exposure. Basel III would impose a new "Common Equity Tier 1" requirement of up to 7%, comprised of a minimum of 4.5% plus a capital conservation buffer of up to 2.5%. The BCBS has also stated that from time to time it may require an additional, counter-cyclical capital buffer on top of Basel III standards.

Furthermore, in June 2012, the Federal Reserve, FDIC and OCC issued several joint NPRs to address the implementation of the proposed Basel III regulatory capital framework for U.S. financial institutions, including proposed minimum capital requirements, definitions of qualifying capital instruments, and risk-weighted asset calculations. As proposed, we expect that our risk-weighted assets will increase primarily due to increased risk-weightings for residential mortgages, commercial real estate loans, and home equity loans, and this will result in a decline in our capital ratios. We continue to analyze the NPR; however, as currently proposed, we estimate our current Basel III Tier 1 common ratio would be approximately 8.0%, which would be in compliance with the proposed

requirements. See "Reconciliation of Non U.S. GAAP Measures" in this MD&A for a reconciliation of the current Basel I ratio to the proposed Basel III ratio. The agencies are expected to consider the feedback and draft a final rule, which could take several quarters to complete. Accordingly, the final rule may differ from the current NPR. Further, the NPR indicates a phase-in for the new capital rules with the proposed risk-weightings requirement not becoming effective until 2015. Notwithstanding the uncertainty surrounding the timing and content of the final rule, our current Tier 1 common ratio estimate calculated using the NPR assumptions does not include the effect of any mitigating actions we may undertake to offset some of the anticipated impact of the proposed capital changes. Our estimate of the current period Tier 1 common ratio under the NPR was calculated using the assumptions prescribed in the NPR, which can be found

on the Federal Reserve's website. We monitor our capital structure to ensure it complies with current regulatory and prescribed operating levels and are taking into account these proposed regulations in our capital and strategic planning.

| Capital Ratios<br>(Dollars in millions) | September 30, 2012 | Table 14<br>December 31, 2011 |
|-----------------------------------------|--------------------|-------------------------------|
| Tier 1 capital                          | \$14,178           | \$14,490                      |
| Total capital                           | 17,369             | 18,177                        |
| RWA                                     | 134,086            | 132,940                       |
| Tier 1 common equity:                   |                    |                               |
| Tier 1 capital                          | \$14,178           | \$14,490                      |
| Less:                                   |                    |                               |
| Qualifying trust preferred securities   | 627                | 1,854                         |
| Preferred stock                         | 275                | 275                           |
| Allowable minority interest             | 115                | 107                           |
| Tier 1 common equity                    | \$13,161           | \$12,254                      |
| Risk-based ratios:                      |                    |                               |
| Tier 1 common equity <sup>1</sup>       | 9.82               | % 9.22 %                      |
| Tier 1 capital                          | 10.57              | 10.90                         |
| Total capital                           | 12.95              | 13.67                         |
| Tier 1 leverage ratio                   | 8.49               | 8.75                          |
| Total shareholders' equity to assets    | 11.78              | 11.35                         |

<sup>1</sup> At September 30, 2012, our Basel III Tier 1 common equity ratio as calculated under the recent NPRs was estimated to be 8.0%. See "Reconciliation of Non U.S. GAAP Measures" in the "Selected Quarterly Financial Data" section of this MD&A for a reconciliation of the current Basel I ratio to the proposed Basel III ratio.

Tier 1 common equity, Tier 1 capital, and total capital ratios were 9.82%, 10.57%, and 12.95%, respectively, at September 30, 2012, compared with 9.22%, 10.90%, and 13.67%, respectively, at December 31, 2011. The increase in the Tier 1 common equity ratio was driven by year to date earnings. The decrease in our Tier 1 and total capital ratios was primarily a result of the impact of the redemption of \$38 million of trust preferred securities in the second quarter and the redemption of an additional \$1.2 billion in July. At September 30, 2012, our capital ratios remain strong, exceeding current regulatory requirements, and are still expected to comply with the proposed requirements under the NPR as discussed above.

During the nine months ended September 30, 2012, we declared and paid common dividends totaling \$81 million, or \$0.15 per common share, compared with \$37 million, or \$0.07 per common share during the same period in 2011. Additionally, we declared and paid dividends during the nine months ended September 30, 2012, and 2011 of \$8 million and \$5 million, respectively, on our preferred stock. Further, during the nine months ended September 30, 2011, we declared and paid dividends of \$60 million to the U.S. Treasury on the Series C and D Preferred Stock. We remain subject to certain considerations affecting our ability to increase our dividend. If we increase our quarterly dividend above \$0.54 per share prior to the tenth anniversary of our participation in the CPP, then the exercise price and the number of shares to be issued upon exercise of the warrants issued in connection with our participation in the CPP will be proportionately adjusted. See Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2011, for additional considerations regarding the level of future dividends. Additionally, limits exist on the ability of the Bank to pay dividends to the Parent Company. Substantially all of our retained earnings are undistributed earnings of the Bank. At September 30, 2012, retained earnings of the Bank available for payment of cash dividends to the Parent Company totaled approximately \$1.4 billion; however, use of this amount for payment of dividends to the Parent Company is subject to regulatory approval by federal and state bank regulatory authorities.

## CRITICAL ACCOUNTING POLICIES

These financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011. During the three months ended September 30, 2012, we elected to revise our credit policy related to the nonaccrual status and timing of charge-off recognition of second lien loans. We began classifying second lien loans as nonaccrual when the first lien loan is classified as nonaccrual, even if the second lien loan is performing, and as a result, we reclassified \$81 million of performing second lien loans to nonaccrual. Additionally, we previously charged-off second lien loans at 180 days past due, but implemented a change in policy in the third quarter of 2012 to recognize the charge-off at 120 days past due as the analysis indicated that when a second lien loan becomes 120 days past due, the vast majority of these loans ultimately experience a charge-off. The change in credit policy resulted in \$65 million of incremental charge-offs during the three and nine months ended September 30, 2012.

## ENTERPRISE RISK MANAGEMENT

There have been no significant changes in our Enterprise Risk Management as described in our Annual Report on Form 10-K for the year ended December 31, 2011, except as discussed below.

### Credit Risk Management

There have been no significant changes in our credit risk management practices as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

### Operational Risk Management

There have been no significant changes in our operational risk management practices as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

### Market Risk Management

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices. Interest rate risk, defined as the exposure of NII and MVE to adverse movements in interest rates, is our primary market risk and mainly arises from the structure of our balance sheet, which includes all loans. Variable rate loans, prior to any hedging related actions, are approximately 56% of total loans and after giving consideration to hedging related actions, are approximately 42% of total loans. We are also exposed to market risk in our trading instruments carried at fair value. ALCO meets regularly and is responsible for reviewing our open positions and establishing policies to monitor and limit exposure to market risk.

#### Market Risk from Non-Trading Activities

The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board. These limits and guidelines reflect our tolerance for interest rate risk over both short-term and long-term horizons. No limit breaches occurred during the first nine months of 2012.

The major sources of our non-trading interest rate risk are timing differences in the maturity and repricing characteristics of assets and liabilities, changes in the shape of the yield curve, and the potential exercise of explicit or embedded options. We measure these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models, which as described in additional detail below, are employed by management to understand NII at risk and MVE at risk. These measures show that our interest rate risk profile is relatively neutral.

MVE and NII sensitivity are complementary interest rate risk metrics and should be viewed together. NII sensitivity captures asset and liability repricing mismatches for the first year inclusive of forecast balance sheet changes and is considered a shorter term measure, while MVE sensitivity captures mismatches within the period end balance sheets through the financial instruments' respective maturities and is considered a longer term measure.

A positive NII sensitivity in a rising rate environment indicates that over the forecast horizon of one-year, asset based income will increase more quickly than liability based expense due to balance sheet composition. A negative MVE sensitivity in a rising rate environment indicates that value of the financial assets will decrease more than the value of financial liabilities. A negative 100 basis point scenario is less meaningful in the current interest rate environment as interest rates are not expected to be negative in the model, thus, different term points in the calculation cannot decrease by the full 100 basis points, which impact exposures in a non-intuitive manner.

One of the primary methods that we use to quantify and manage interest rate risk is simulation analysis, which we use to model NII from assets, liabilities, and derivative positions under various interest rate scenarios and balance sheet structures. This analysis measures the sensitivity of NII over a two year time horizon, which differs from the interest rate sensitivities in Tables 15 and 16 which are prescribed to be over a one year time horizon. Key assumptions in the simulation analysis (and in the valuation analysis discussed below) relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit clients in different rate environments. This analysis incorporates several assumptions, the most material of which relate to the repricing characteristics and balance fluctuations of deposits with indeterminate or non-contractual maturities.

As the future path of interest rates cannot be known in advance, we use simulation analysis to project NII under various interest rate scenarios including implied forward and deliberately extreme and perhaps unlikely scenarios. The

analyses may include rapid

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and gradual ramping of interest rates, rate shocks, basis risk analysis, and yield curve twists. Each analysis incorporates what management believes to be the most appropriate assumptions about client behavior in an interest rate scenario. Specific strategies are also analyzed to determine their impact on NII levels and sensitivities. The sensitivity analysis included below is measured as a percentage change in NII due to an instantaneous 100 basis point move in benchmark interest rates. Estimated changes set forth below are dependent upon material assumptions such as those previously discussed. The NII profile reflects a relatively neutral interest rate sensitive position with respect to an instantaneous 100 basis point change in rates.

## Interest Rate Sensitivity from an Economic Perspective

| (Basis points)<br>Rate Change | Table 15<br>Estimated % Change in NII<br>Over 12 Months |                   |
|-------------------------------|---------------------------------------------------------|-------------------|
|                               | September 30, 2012                                      | December 31, 2011 |
| +100                          | 2.2%                                                    | 1.5%              |
| -100 <sup>1</sup>             | (1.5)%                                                  | (1.8)%            |

<sup>1</sup> Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

The recognition of interest rate sensitivity from an economic perspective (above) is different from a financial reporting perspective (below) due to certain interest rate swaps that are used as economic hedges for fixed rate debt. The above profile includes the recognition of the net interest payments from these swaps, while the profile below does not include the net interest payments. The swaps are accounted for as trading derivatives. Therefore, the benefit to income due to a decline in short term interest rates will be recognized as a gain in the fair value of the swaps and will be recorded as an increase in trading income from a financial reporting perspective.

## Interest Rate Sensitivity from a Financial Reporting Perspective

| (Basis points)<br>Rate Change | Table 16<br>Estimated % Change in NII<br>Over 12 Months |                   |
|-------------------------------|---------------------------------------------------------|-------------------|
|                               | September 30, 2012                                      | December 31, 2011 |
| +100                          | 2.4%                                                    | 1.8%              |
| -100 <sup>1</sup>             | (1.6)%                                                  | (2.0)%            |

<sup>1</sup> Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

The difference from December 31, 2011 to September 30, 2012, seen above in both the economic and financial reporting perspectives related to the +100 basis point shock scenario is primarily due to an increase in asset sensitivity from projected balance sheet growth of floating rate assets and fixed rate deposits.

We also perform valuation analysis, which we use for discerning levels of risk present in the balance sheet and derivative positions that might not be taken into account in the NII simulation analysis above. Whereas NII simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows and derivative cash flows minus the discounted present value of liability cash flows, the net of which is referred to as MVE. The sensitivity of MVE to changes in the level of interest rates is a measure of the longer-term repricing risk and options risk embedded in the balance sheet. Similar to the NII simulation, MVE uses instantaneous changes in rates. MVE values only the current balance sheet and does not incorporate the growth assumptions that are used in the NII simulation model. As with the NII simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the MVE analysis. Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate deposit portfolios.

The +100 basis point MVE sensitivity scenario depicts a slight gain of value as rates increase which indicates asset durations are slightly shorter than liability durations. The increase in NII for the same scenario indicates a greater amount of assets than liabilities repricing to higher yields over the next year. Comparing both profiles indicates a balance sheet with a slightly shorter weighted average duration of assets combined with a higher percentage of floating rate assets compared to liabilities.

As of September 30, 2012, the MVE profile indicates changes with respect to an instantaneous 100 basis point change in rates. MVE sensitivity is reported in both upward and downward rate shocks. However, results at September 30, 2012, in the downward rate shock were significantly less meaningful than the upward rate shock. In a -100 shock scenario, current interest rate levels that

are already at or near 0% are adversely impacting discounted cash flow analysis causing the short end of the discount curve to be zero bound and therefore, the shock behaves more like a curve flattener than a parallel shock. These impact sensitivity measures in a non-intuitive manner.

#### Market Value of Equity Sensitivity

| (Basis points)<br>Rate Change | Table 17<br>Estimated % Change in MVE |                   |
|-------------------------------|---------------------------------------|-------------------|
|                               | September 30, 2012                    | December 31, 2011 |
| +100                          | 0.4%                                  | (2.4)%            |
| -100 <sup>1</sup>             | (2.5)%                                | (0.9)%            |

<sup>1</sup> Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under an extremely adverse scenario, we believe that a gradual shift in interest rates would have a much more modest impact. Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current fiscal year). Further, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates. The NII simulation and valuation analyses do not include actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

#### Market Risk from Trading Activities

Under established policies and procedures, we manage market risk associated with trading, capital markets, and foreign exchange activities using a VAR approach that determines total exposure arising from interest rate risk, equity risk, foreign exchange risk, spread risk, and volatility risk. For trading portfolios, VAR measures the estimated maximum loss from a trading position, given a specified confidence level and time horizon. VAR exposures and actual results are monitored daily for each trading portfolio. Our VAR calculation measures the potential trading losses using a one day holding period at a one-tail, 99% confidence level. This means that, on average, trading losses are expected to exceed VAR one out of 100 trading days, or two to three times per year. We had no backtest exceptions to our overall firmwide VAR during the three and nine months ended September 30, 2012 and 2011. The following table presents high, low, and average VAR for the three and nine months ended September 30, 2012 and 2011.

#### Value at Risk Profile

| (Dollars in millions) | Table 18<br>For the Three Months Ended<br>September 30 |      | For the Nine Months Ended<br>September 30 |      |
|-----------------------|--------------------------------------------------------|------|-------------------------------------------|------|
|                       | 2012                                                   | 2011 | 2012                                      | 2011 |
| Average VAR           | \$5                                                    | \$5  | \$5                                       | \$5  |
| High VAR              | \$5                                                    | \$6  | \$5                                       | \$7  |
| Low VAR               | \$4                                                    | \$4  | \$4                                       | \$4  |

Average VAR during the three and nine months ended September 30, 2012, was unchanged compared to the three and nine months ended September 30, 2011. While VAR can be a useful risk management tool, it does have inherent limitations including the assumption that past market behavior is indicative of future market performance. As such, VAR is only one of several tools used to manage trading risk. Specifically, scenario analysis, stress testing, profit and loss attribution, and stop loss limits are among other tools also used to actively manage trading risk.

Trading assets, net of trading liabilities, averaged \$4.6 billion and 4.1 billion for the three months ended September 30, 2012 and 2011, respectively, and \$4.6 billion and \$3.7 billion for the nine months ended September 30, 2012 and

2011, respectively. Trading assets, net of trading liabilities, were \$4.9 billion and \$4.6 billion at September 30, 2012 and 2011, respectively. The increase in net trading assets was primarily attributable to an increase in the TRS portfolio.

#### Liquidity Risk

Liquidity risk is the risk of being unable to meet obligations as they come due at a reasonable funding cost. We mitigate this risk by structuring our balance sheet prudently and by maintaining diverse borrowing resources to fund potential cash needs. For

example, we structure our balance sheet so that we fund less liquid assets, such as loans, with stable funding sources, such as retail and wholesale deposits, long-term debt, and capital. We primarily monitor and manage liquidity risk at the Parent Company and Bank levels as the non-bank subsidiaries are relatively small and these subsidiaries ultimately rely upon the Parent Company as a source of liquidity in adverse environments.

The Bank's primary liquid assets consist of excess reserves and free and liquid securities in its investment portfolio. The Bank manages its investment portfolio primarily as a store of liquidity, maintaining the strong majority of its securities in liquid and high-grade asset classes such as agency MBS, agency debt, and U.S. Treasury securities. As of September 30, 2012, the Bank's AFS investment portfolio contained \$11.4 billion of free and liquid securities at book value, of which approximately 93% consisted of agency MBS, agency debt, and U.S. Treasury securities.

We manage the Parent Company to maintain most of its liquid assets in cash and securities that could be quickly converted to cash. Unlike the Bank, it is not typical for the Parent Company to maintain a material investment portfolio of publicly traded securities. We manage the Parent Company cash balance to provide sufficient liquidity to fund all forecasted obligations (primarily debt and capital service) for an extended period of months in accordance with our risk limits.

We assess liquidity needs that may occur in both the normal course of business and times of unusual events, considering both on- and off-balance sheet arrangements and commitments that may impact liquidity in certain business environments. We have contingency funding plans that assess liquidity needs that may arise from certain stress events such as credit rating downgrades, severe economic recessions, and financial market disruptions. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingent liquidity. These sources of contingent liquidity include available cash reserves; the ability to sell, pledge, or borrow against unencumbered securities in the Bank's investment portfolio; capacity to borrow from the FHLB system; and the capacity to borrow at the Federal Reserve discount window. The following table presents period-end and average balances from these four sources as of and for the nine months ended September 30, 2012 and 2011. We believe these contingent liquidity sources exceed any contingent liquidity needs.

#### Contingent Liquidity Sources

| (Dollars in billions)                           | September 30, 2012 |                                                   | September 30, 2011 |                                                   |
|-------------------------------------------------|--------------------|---------------------------------------------------|--------------------|---------------------------------------------------|
|                                                 | As of              | Average for the<br>Nine Months Ended <sup>1</sup> | As of              | Average for the<br>Nine Months Ended <sup>1</sup> |
| Excess reserves                                 | \$1.8              | \$1.8                                             | \$1.7              | \$3.0                                             |
| Free and liquid investment portfolio securities | 11.4               | 13.5                                              | 15.7               | 17.7                                              |
| FHLB borrowing capacity                         | 12.1               | 11.3                                              | 15.2               | 13.0                                              |
| Discount window borrowing capacity              | 17.7               | 17.0                                              | 15.0               | 13.7                                              |
| Total                                           | \$43.0             | \$43.6                                            | \$47.6             | \$47.4                                            |

<sup>1</sup>Average based upon month-end data, except excess reserves, which is based upon a daily average.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital service. The Bank and the Parent Company borrow in the money markets using instruments such as Fed funds, Eurodollars, and CP. As of September 30, 2012, the Parent Company had no CP outstanding and the Bank retained a material cash position in the form of excess reserves in its Federal Reserve account. In the absence of robust loan demand, we have chosen to deploy some of this excess liquidity to retire certain high-cost debt securities or other borrowings. During the quarter, we used cash on hand to retire \$1.2 billion of high-cost, fixed-rate trust preferred securities including SunTrust Capital VIII (6.10%) and SunTrust Capital IX (7.875%); we called these securities in June pursuant to a change in regulatory capital treatment for trust preferred securities as part of new capital rules announced by the Federal Reserve in June. The Parent Company retains a material cash position, in accordance with our policies and risk limits discussed in greater detail below.

Contingent uses of funds may arise from events such as financial market disruptions or credit rating downgrades. Factors that affect our credit ratings include, but are not limited to, the credit risk profile of our assets, the adequacy of our ALLL, the level and stability of our earnings, the liquidity profile of both the Bank and the Parent Company, the economic environment, and the adequacy of our capital base. As of September 30, 2012, Moody's, S&P, Fitch, and

DBRS all maintained a “Stable” outlook on our credit ratings. Future credit rating downgrades are possible, although not currently anticipated given the “Stable” credit rating outlooks.

## Debt Credit Ratings and Outlook

Table 20

|                      | As of September 30, 2012 |        |        |           |
|----------------------|--------------------------|--------|--------|-----------|
|                      | Moody's                  | S&P    | Fitch  | DBRS      |
| SunTrust Banks, Inc. |                          |        |        |           |
| Short-term           | P-2                      | A-2    | F2     | R-1 (low) |
| Senior long-term     | Baa1                     | BBB    | BBB+   | A (low)   |
| SunTrust Bank        |                          |        |        |           |
| Short-term           | P-2                      | A-2    | F2     | R-1 (low) |
| Senior long-term     | A3                       | BBB+   | BBB+   | A         |
| Outlook              | Stable                   | Stable | Stable | Stable    |

Sources of Funds. Our primary source of funds is a large, stable retail deposit base. Core deposits, predominantly made up of consumer and commercial deposits, originate primarily from our retail branch network and are our largest, most cost-effective source of funding. Core deposits decreased to \$124.9 billion as of September 30, 2012, from \$125.6 billion as of December 31, 2011.

We also maintain access to a diversified collection of both secured and unsecured wholesale funding sources. These uncommitted sources include Fed funds purchased from other banks, securities sold under agreements to repurchase, negotiable CDs, offshore deposits, FHLB advances, Global Bank Notes, and CP. Aggregate wholesale funding decreased to \$17.3 billion as of September 30, 2012, from \$17.5 billion as of December 31, 2011. FHLB advances accounted for part of that decline as we retired \$1 billion of advances during the three months ended September 30, 2012. Net short-term unsecured borrowings, which includes wholesale domestic and foreign deposits, as well as Fed funds purchased, remained unchanged at \$5.1 billion as of September 30, 2012, compared to December 31, 2011.

As mentioned above, the Bank and Parent Company maintain programs to access the debt capital markets. The Parent Company maintains an SEC shelf registration statement from which it may issue senior or subordinated notes and various capital securities such as common or preferred stock. Our Board has authorized the issuance of up to \$5 billion of such securities, of which approximately \$2.1 billion of issuance capacity remains available. On November 1, 2011, we issued \$750 million of 3.50% senior Parent Company notes due January 20, 2017 and throughout 2012 we have issued several small structured notes for the Parent Company in the amount of \$73 million. The Bank also maintains a Global Bank Note program under which it may issue senior or subordinated debt with various terms. As of September 30, 2012, the Bank had \$36.6 billion of remaining capacity to issue notes under the program. Our issuance capacity under these programs refers to authorization granted by our Board, or formal program capacity, and does not refer to a commitment to purchase by any investor. Debt and equity securities issued under these programs are designed to appeal primarily to domestic and international institutional investors. Institutional investor demand for these securities is dependent upon numerous factors, including but not limited to our credit ratings and investor perception of financial market conditions and the health of the banking sector.

Parent Company Liquidity. Our primary measure of Parent Company liquidity is the length of time the Parent Company can meet its existing and certain forecasted obligations using its present balance of cash and liquid securities without the support of dividends from the Bank or new debt issuance. As of September 30, 2012, this measure was well in excess of the current limit. Our Board Risk Committee regularly reviews this measure and other risk metrics. In accordance with risk limits established by ALCO and the Board, we manage the Parent Company's liquidity by structuring its maturity schedule to minimize the amount of debt maturing within a short period of time. During the three months ended September 30, 2012, no Parent Company debt matured, and approximately \$437 million of Parent Company debt is scheduled to mature during the fourth quarter of 2012. As mentioned above, we redeemed approximately \$1.2 billion of trust preferred securities at the Parent Company that will not receive Tier 1 Capital credit under new regulatory capital rules; the Parent Company used cash on hand to redeem these securities. A majority of the Parent Company's remaining liabilities are long-term in nature, coming from the proceeds of our capital securities and long-term senior and subordinated notes.

The primary uses of Parent Company liquidity include debt service, dividends on capital instruments, the periodic purchase of investment securities, and loans to our subsidiaries. We fund corporate dividends primarily with dividends from our banking subsidiary. We are subject to both state and federal banking regulations that limit our ability to pay

common stock dividends in certain circumstances.

**Recent Developments.** During the third quarter we executed and announced several balance sheet restructuring transactions that included the early termination of agreements related to our shares of Coke common stock and the planned sale of certain consumer and commercial loan portfolios. After selling the Coke shares, repurchasing the notes issued as part of the 2008 transaction, and

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paying taxes on the gains generated by the share sale, the net liquidity impact for the Bank and the Parent Company associated with the early termination of the Coke share agreements was immaterial. The Bank, however, anticipates receiving material proceeds from the sale of the aforementioned loan portfolios during the fourth quarter.

Numerous legislative and regulatory proposals currently outstanding may have an effect on our liquidity if they become effective, the potential impact of which cannot be presently quantified. However, we believe that we will be well positioned to comply with new standards as they become effective as a result of our strong core banking franchise and prudent liquidity management practices.

On December 20, 2011, the Federal Reserve published proposed measures to strengthen regulation and supervision of large bank holding companies and systemically important nonbank financial firms, pursuant to sections 165 and 166 of the Dodd-Frank Act. These proposed regulations include a number of requirements related to liquidity that would be instituted in phases. The first phase encompasses largely qualitative liquidity risk management practices, including internal liquidity stress testing. The second phase would include certain quantitative liquidity requirements related to the proposed Basel III liquidity standards. We believe that we will be well positioned to demonstrate compliance with these new requirements and standards if and when they are adopted.

**Other Liquidity Considerations.** As presented in Table 21, we had an aggregate potential obligation of \$63.8 billion to our clients in unused lines of credit at September 30, 2012. Commitments to extend credit are arrangements to lend to clients who have complied with predetermined contractual obligations. We also had \$4.1 billion in letters of credit as of September 30, 2012, most of which are standby letters of credit, which require that we provide funding if certain future events occur. Approximately \$2.2 billion of these letters supported variable rate demand obligations as of September 30, 2012.

| Unfunded Lending Commitments<br>(Dollars in millions) | September 30, 2012 | Table 21<br>December 31, 2011 |
|-------------------------------------------------------|--------------------|-------------------------------|
| Unused lines of credit:                               |                    |                               |
| Commercial                                            | \$37,086           | \$35,685                      |
| Mortgage commitments <sup>1</sup>                     | 9,593              | 7,833                         |
| Home equity lines                                     | 11,964             | 12,730                        |
| Commercial real estate                                | 1,232              | 1,465                         |
| CP conduit                                            | —                  | 765                           |
| Credit card                                           | 3,888              | 3,526                         |
| Total unused lines of credit                          | \$63,763           | \$62,004                      |
| Letters of credit:                                    |                    |                               |
| Financial standby                                     | \$4,051            | \$5,081                       |
| Performance standby                                   | 49                 | 70                            |
| Commercial                                            | 43                 | 55                            |
| Total letters of credit                               | \$4,143            | \$5,206                       |

<sup>1</sup>Includes IRLC contracts with notional balances of \$7.0 billion and \$4.9 billion as of September 30, 2012 and December 31, 2011, respectively.

#### Other Market Risk

Except as discussed below, there have been no other significant changes to other market risk as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

MSRs, which are carried at fair value, totaled \$831 million and \$921 million as of September 30, 2012 and December 31, 2011, respectively, are managed within established risk limits and are monitored as part of various governance processes. We recorded decreases of \$116 million and \$330 million in the fair value of our MSRs for the three and nine months ended September 30, 2012, respectively, and decreases of \$437 million and \$582 million in the fair value of our MSRs for the three and nine months ended September 30, 2011. Increases or decreases in fair value include the decay resulting from the realization of expected monthly net servicing cash flows. We originated MSRs with fair values at the time of origination of \$83 million and \$244 million for the three and nine months ended September 30,

2012, respectively, and \$47 million and \$183 million for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2012, we recorded losses related to MSRs of \$19 million and \$36 million (including decay of \$61 million and \$173 million), respectively, inclusive of the mark-to-market adjustments on the related hedges.

For the three and nine months ended September 30, 2011, we recorded losses related to MSRs of \$40 million and \$94 million (including decay of \$46 million and \$139 million), respectively, inclusive of the mark-to-market adjustments on the related hedges.

We continue to monitor our holdings of foreign debt, securities, and commitments to lend to foreign countries and corporations, both funded and unfunded. Specifically, the risk is higher for exposure to countries that are experiencing significant economic, fiscal, and/or political strains. At September 30, 2012, we identified five countries in Europe that we believe are experiencing strains such that the likelihood of default is higher than would be anticipated if current economic, fiscal, and political strains were not present. The countries we identified were Greece, Ireland, Italy, Portugal, and Spain, and were chosen based on the economic situation experienced in these countries during 2011, the first nine months of 2012, and continuing to exist as of September 30, 2012. At September 30, 2012, we had no direct exposure to sovereign debt of these countries. However, at September 30, 2012, we had direct exposure to corporations and individuals in these countries of \$60 million that comprised of unfunded commitments to lend, funded loans, and a nominal amount of letters of credit. Indirect exposure to these countries was \$37 million at September 30, 2012 and consisted primarily of double default risk exposure. The majority of the exposure is the notional amount of letters of credit issued on behalf of our role as an agent bank under the terms of a syndicated corporate loan agreement, wherein other participant banks in the syndicate are located in the identified higher risk countries. Overall, gross exposure to these countries continues to be less than 1% of our total assets as of September 30, 2012, consistent with our exposure at December 31, 2011.

#### OFF-BALANCE SHEET ARRANGEMENTS

See discussion of off-balance sheet arrangements in Note 6, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 11, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in this Form 10-Q.

#### CONTRACTUAL COMMITMENTS

In the normal course of business, we enter into certain contractual obligations, including obligations to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts. As of September 30, 2012, time deposits declined by 14% during the year due to the maturity of a large population of higher-cost CDs. Except for this change noted in time deposits and the changes noted within the "Borrowings" section of this MD&A, there have been no other material changes in our Contractual Commitments as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

#### BUSINESS SEGMENTS

The following table presents net income/(loss) for our reportable business segments:

| Net Income/(Loss) by Segment                   | Table 22                           |       |                                   |       |
|------------------------------------------------|------------------------------------|-------|-----------------------------------|-------|
|                                                | Three Months Ended<br>September 30 |       | Nine Months Ended September<br>30 |       |
| (Dollars in millions)                          | 2012                               | 2011  | 2012                              | 2011  |
| Consumer Banking and Private Wealth Management | \$50                               | \$62  | \$218                             | \$157 |
| Wholesale Banking                              | 145                                | 68    | 486                               | 249   |
| Mortgage Banking                               | (388)                              | (138) | (639)                             | (451) |
| Corporate Other                                | 1,265                              | 149   | 1,450                             | 394   |

The following table presents average loans and average deposits for our reportable business segments:

Table 23

Average Loans and Deposits by  
Segment

| (Dollars in millions)                          | Three Months Ended September 30 |          |                                          |          |
|------------------------------------------------|---------------------------------|----------|------------------------------------------|----------|
|                                                | Average Loans                   |          | Average Consumer and Commercial Deposits |          |
|                                                | 2012                            | 2011     | 2012                                     | 2011     |
| Consumer Banking and Private Wealth Management | \$41,574                        | \$38,887 | \$76,185                                 | \$76,618 |
| Wholesale Banking                              | 51,990                          | 47,996   | 45,291                                   | 43,193   |
| Mortgage Banking                               | 30,467                          | 28,765   | 3,938                                    | 3,081    |
| Corporate Other                                | 49                              | (10      | ) (61                                    | ) 82     |

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| (Dollars in millions)                          | Nine Months Ended September 30 |          | Average Consumer and Commercial Deposits |          |
|------------------------------------------------|--------------------------------|----------|------------------------------------------|----------|
|                                                | Average Loans<br>2012          | 2011     | 2012                                     | 2011     |
| Consumer Banking and Private Wealth Management | \$41,493                       | \$38,793 | \$76,774                                 | \$76,466 |
| Wholesale Banking                              | 51,115                         | 47,490   | 45,356                                   | 42,348   |
| Mortgage Banking                               | 30,690                         | 28,966   | 3,571                                    | 2,920    |
| Corporate Other                                | 34                             | (7       | ) (9                                     | ) 129    |

See Note 14, “Business Segment Reporting,” to the Consolidated Financial Statements in this Form 10-Q for discussion of our segment structure, basis of presentation, and internal management reporting methodologies.

## BUSINESS SEGMENT RESULTS

### Nine Months Ended September 30, 2012 vs. 2011

#### Consumer Banking and Private Wealth Management

Consumer Banking and Private Wealth Management reported net income of \$218 million for the nine months ended September 30, 2012, an increase of \$61 million, or 39%, compared to the same period in 2011. The increase in net income was due to lower provision for credit losses, lower expenses, and higher net interest income, partially offset by lower noninterest income.

Net interest income was \$1.9 billion, an increase of \$36 million, or 2%, compared to the same period in 2011. The increase was driven by higher average loan and deposit balances, partially offset by the impact of lower loan and deposit spreads. Net interest income related to loans increased \$32 million, or 4%, compared to the prior year driven by a \$2.7 billion, or 7%, increase in average loan balances, partially offset by a decrease in loan spreads of 7 basis points. The increase in average loans was driven by higher production in indirect auto, consumer direct, and the fourth quarter of 2011 acquisitions of student loan portfolios, partially offset by decreases in home equity lines and residential mortgages. Other funding costs related to other assets and other liabilities improved by \$17 million driven primarily by a decline in funding rates. Pursuant to the asset dispositions announced in September 2012, \$1.4 billion in guaranteed student loan balances were transferred to loans held for sale in the third quarter, resulting in the recognition of a \$15 million loss on the transfer. The sales are expected to be completed in the fourth quarter. Approximately \$1.0 billion in sales was completed in October 2012 with the remaining \$400 million expected to be sold during the fourth quarter. Further, we expect to transfer approximately \$600 million of additional guaranteed student loans to held for sale in the fourth quarter, with an immaterial gain or loss associated with the transfer.

Net interest income related to client deposits decreased \$13 million, or 1%, compared to the same period in 2011 as deposit spreads decreased 3 basis points, partially offset by a \$308 million increase in average client deposit balances. Favorable deposit mix trends continued as low cost average deposits increased \$2.8 billion, or 5%, offsetting a \$2.5 billion, or 15%, decline in higher cost average time deposits.

Provision for credit losses was \$435 million, a decrease of \$125 million, or 22%, compared to the same period in 2011. The decrease was driven by declines in net charge-offs of: \$65 million in home equity lines, \$14 million in residential mortgage loans, \$14 million in credit card, \$14 million in consumer indirect, and \$12 million in commercial. Additionally, the third quarter of 2012 included \$43 million of incremental charge-offs related to a change in credit policy accelerating the charge-off of second lien loans from 180 days to 120 days past due.

Total noninterest income was \$971 million, a decrease of \$138 million, or 12%, compared to the same period in 2011. Card fees decreased \$124 million compared to the same period in 2011 driven by regulations on debit interchange fee income that became effective in the fourth quarter of 2011. Additionally, \$15 million in a market valuation write-down related to the transfer of student loans to held for sale and a modest decline in trust and investment management income were partially offset by higher retail investment income.

Total noninterest expense was \$2.1 billion, a decline of \$73 million, or 3%, compared to the same period in 2011. The decrease was driven by reduced staff expense as a result of a 7% decrease in FTE caused by efficiency initiatives related to branch staffing models. Additionally, the decrease in noninterest expense was driven by decreases in other real estate expense and the reclassification of card rewards program costs to card fees within noninterest income in the third quarter of 2012.

## Wholesale Banking

Wholesale Banking reported net income of \$486 million for the nine months ended September 30, 2012, an increase of \$237 million, or 95%, compared to the same period in 2011. The increase in net income was attributable to decreases in provision for credit losses combined with an increase in net interest income and noninterest income, partially offset by a slight increase in noninterest expense.

Net interest income was \$1.4 billion, a \$111 million, or 9%, increase from the prior year, driven by higher loan and deposit balances. Net interest income related to loans increased \$61 million, or 8%, as average loan balances increased \$3.6 billion, or 8%, with increases in commercial and tax-exempt loans, partially offset by decreases in commercial real estate loans. Net interest income related to deposits increased \$32 million, or 6%, resulting from a \$3.0 billion, or 7%, increase in client deposit balances. Favorable trends in deposit mix continued as lower cost demand deposits increased \$4.6 billion, or 24%, while average combined interest-bearing transaction accounts and money market accounts decreased \$1.3 billion, or 6%, reflecting a continued shift in customer preference towards demand deposit products.

Provision for credit losses was \$246 million, a decrease of \$242 million, or 50%, from the prior year. The decrease was driven by lower core net charge-offs in commercial real estate and commercial loans, partially offset by an increase in charge-offs related to commercial real estate NPLs that were transferred to held for sale during the third quarter.

Total noninterest income was \$1.2 billion, an increase of \$54 million, or 5%, from the prior year, predominantly driven by increased trading revenue largely driven by fixed income revenue, leasing gains and non margin loan fees. These increases were partially offset by declines in card services revenue due to lower rates driven by regulations that became effective beginning in the fourth quarter of 2011, letter of credit fees, and service charges on deposit accounts.

Total noninterest expense was \$1.6 billion, flat compared to the prior year. Noninterest expense included impairment charges of \$96 million related to planned affordable housing partnership interests dispositions, announced in September 2012. Sales of the partnership investments are expected to be completed in 2013. Partially offsetting the impairment charges were the favorable settlement of litigation claims and continued declines in other real estate related expense, staff expense and allocated corporate costs.

## Mortgage Banking

Mortgage Banking reported a net loss of \$639 million for the nine months ended September 30, 2012, a \$188 million, or 42% increase, over the net loss of \$451 million for the same period in 2011. The higher loss was primarily driven by strategic actions taken in the third quarter and higher expenses. The actions taken included additional loan repurchase provision expected to be sufficient to cover pre-2009 GSE demands, higher provision for loan losses associated with charge-offs on the sale of \$447 million of nonperforming loans, as well as market valuation losses related to the transfer of \$500 million of GNMA loans to held for sale. These income reductions were partially offset by higher net interest income, strong mortgage production, and higher gain on sale margins.

Net interest income was \$388 million, an increase of \$40 million, or 11%. The increase was predominantly due to higher net interest income on loans and LHFS and reduced funding costs on lower MSR balances, partially offset by lower deposit income. Residential mortgage loans increased \$2.0 billion, or 8%, resulting in an increase in net interest income of \$20 million. Net interest income on LHFS increased \$10 million due to an \$830 million increase in average balances partially offset by lower loan spreads. Net interest income increased \$15 million, or 54%, due to lower funding costs of average MSRs. Total average deposits increased \$651 million, or 22%, with net interest income decreasing \$7 million due predominantly to lower deposit spreads.

Provision for credit losses was \$602 million, an increase of \$82 million, or 16%, compared to the same period in 2011 due to an \$89 million increase in residential mortgage net charge-offs. Core charge-offs declined, however, the increase in total provision was primarily due to \$171 million in charge-offs related to the sale of nonperforming residential mortgage loans in both second and third quarters of 2012. This compares with \$10 million related to nonperforming loan sales in 2011. Additionally, the third quarter of 2012 included \$22 million of incremental charge-offs related to a change in credit policy accelerating the charge-off of second lien loans from 180 days to 120 days past due.

Total noninterest income was \$261 million, a decline of \$10 million, or 4%, compared to the same period in 2011. The decline was predominantly driven by a \$415 million increase in mortgage repurchase provision as a result of a \$371 million provision in the third quarter of 2012 that is expected to cover estimated incurred losses on pre-2009 GSE demands. Additionally, in the third quarter of 2012, a \$77 million write-down was recorded associated primarily with the transfer of approximately \$500 million of delinquent Ginnie Mae loans to LHFS. The repurchase provision and write-downs were partially offset by gains on loan sales and

fee income due to higher production volume. Loan originations were \$24 billion for the nine months ended September 30, 2012, compared to \$16.2 billion for the prior year, an increase of \$7.8 billion, or 48%. Mortgage servicing income was \$211 million, an increase of \$9 million, or 5%, compared to the same period in 2011. Total loans serviced were \$150 billion at September 30, 2012 compared with \$161 billion at September 30, 2011, down 7%.

Total noninterest expense was \$1.1 billion, an increase of \$216 million, or 26%, compared to the same period in 2011. The higher expenses were attributable to a \$99 million increase in operating losses due to compliance-related costs, largely associated with mortgage servicing and litigation expenses. Additionally, consulting expenses increased \$41 million, predominantly due to costs associated with the Federal Reserve Consent Order and other business initiatives. Total allocated costs increased \$51 million and staff expenses increased \$39 million driven by costs associated with higher production volumes.

#### Corporate Other

Corporate Other's net income for the nine months ended September 30, 2012 was \$1.4 billion, an increase of \$1.1 billion, compared to the same period in 2011. The increase was predominantly due to securities gains derived from the sale of stock in The Coca-Cola Company, partially offset by lower interest income as a result of maturing interest rate swaps utilized to manage interest rate risk, lower gains from the sale of other AFS securities, and a higher charitable contributions expense.

Net interest income was \$303 million, a decrease of \$69 million, or 19%, compared to the same period in 2011. The decrease was primarily due to lower income from the aforementioned interest swaps and the foregone dividend income resulting from the sale of the stock in The Coca-Cola Company, and was partially offset by lower cost of funds driven by a decrease in other assets. Total average assets decreased \$2.0 billion, or 6%, predominantly due to reduction in the investment portfolio. Average long-term debt decreased by \$1.5 billion, or 12%, compared to 2011, primarily due to the repayment of senior and subordinated debt. Average short-term borrowings increased \$6.7 billion as our non-deposit funding profile began to reflect a more normalized asset growth and balance sheet environment.

Total noninterest income was \$2.0 billion, an increase of \$1.7 billion, compared to the same period in 2011. The increase was predominantly due to a \$1.9 billion net gain on sale of stock in The Coca-Cola Company. These gains were partially offset by a \$140 million decrease in mark-to-market valuation on our public debt and index linked CDs carried at fair value and a \$63 million decrease in net gains on the sale of AFS securities.

Total noninterest expenses increased \$85 million compared to the same period in 2011. The increase was mainly due to a \$38 million charitable contribution of the stock in The Coca-Cola Company to the SunTrust Foundation, increased staff expenses primarily associated with improved business performance, higher severance expense, lease abandonment charges related to office space utilization plan changes and increased debt extinguishment charges in 2012 related to redemption of higher cost trust preferred securities.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risk Management" in the MD&A of this Form 10-Q, which is incorporated herein by reference.

### Item 4. CONTROLS AND PROCEDURES

#### Evaluation of disclosure controls and procedures

The Company conducted an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2012. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is

recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012. However, the Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance, but can provide reasonable assurance, that the objectives

of the controls system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in internal control over financial reporting

There have been no changes to the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the normal course of its business activities, some of which involve claims for substantial amounts. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Company's consolidated results of operations, cash flows, or financial condition. For additional information, see Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q, which is incorporated into this Item 1 by reference.

### Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) SunTrust did not repurchase any shares of its common stock, Series A Preferred Stock Depositary Shares, Series B Preferred Stock Depositary Shares, or warrants to purchase common stock during the quarter ended September 30, 2012. At September 30, 2012, the Company had authority from its Board to repurchase all of the 13.9 million outstanding stock purchase warrants (although any such repurchase would be subject to the prior approval of the Federal Reserve), and there was no unused Board authority to repurchase any shares of common stock, Series A Preferred Stock Depositary Shares, or the Series B Preferred Stock Depositary Shares.

### Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

### Item 4. MINE SAFETY DISCLOSURES

Not applicable.

### Item 5. OTHER INFORMATION

None.



Item 6. EXHIBITS

| Exhibit | Description                                                                                                                                                                                                                                                | Sequential Page Number |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| 3.1     | Amended and Restated Articles of Incorporation of the Registrant, restated effective January 16, 2009, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed January 22, 2009.                                     | *                      |
| 3.2     | Bylaws of the Registrant, as amended and restated on August 8, 2011, incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011.                                                                      | *                      |
| 10.1    | Amendment No. 1 to Master Agency Agreement, dated October 3, 2012, to that certain Master Agency Agreement dated as of September 13, 2010, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2012. | *                      |
| 31.1    | Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                            | (filed herewith)       |
| 31.2    | Certification of Chief Financial Officer and Corporate Executive Vice President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                  | (filed herewith)       |
| 32.1    | Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                            | (filed herewith)       |
| 32.2    | Certification of Chief Financial Officer and Corporate Executive Vice President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                  | (filed herewith)       |
| 101.1   | Interactive Data File.                                                                                                                                                                                                                                     | (filed herewith)       |
| *       | incorporated by reference                                                                                                                                                                                                                                  |                        |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SunTrust Banks, Inc.  
(Registrant)

/s/ Thomas E. Panther  
Thomas E. Panther, Senior Vice President and Director of  
Corporate Finance and Controller (on behalf of the  
Registrant and as Principal Accounting Officer)

Date: November 7, 2012.