SUNTRUST BANKS INC
Form 10-Q
November 07, 2012

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

FORM 10-Q

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

303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(404) 588-7711
(Registrant's telephone number, including area code)
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 ý 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).
ý 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 ý
At October 31, 2012, 538,828,728 shares of the Registrant's Common Stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS

		Page
Glossary of Defined Terms		i - iii
PART I FINANCIAL INFORMATION		iii
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Income	1
	Consolidated Statements of Comprehensive (Loss)/Income	2
	Consolidated Balance Sheets	3
	Consolidated Statements of Shareholders' Equity	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	77
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	120
Item 4.	Controls and Procedures	120
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	121
Item 1A.	Risk Factors	121
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	121
Item 3.	Defaults Upon Senior Securities	121
Item 4.	Mine Safety Disclosures	121
Item 5.	Other Information	121
Item 6.	Exhibits	122
SIGNATURE		122

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

(Dollars in millions and shares in thousands, except per share data) (Unaudited)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	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[1]	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[2]	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

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

[1] 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.

[2] 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).

1

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive (Loss)/Income

(Dollars in millions) (Unaudited)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	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).

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands) (Unaudited)	As of September 30, 2012	December 31, 2011
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[1] (loans at fair value: $3,222 as of September 30, 2012 and $2,141 as of December 31, 2011)	5,205	2,353
Loans[2] (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 [3] (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[4]	(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
[1] Includes loans held for sale, at fair value, of consolidated VIEs	$328	$315
[2] Includes loans of consolidated VIEs	374	3,322
[3] Includes debt of consolidated VIEs ($287 at fair value as of September 30, 2012 and $289 as of December 31, 2011)	683	722
[4] Includes noncontrolling interest held	114	107

See Notes to Consolidated Financial Statements (unaudited).

3

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 [1]	Accumulated Other Comprehensive Income [2]	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	—	—	—	(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

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

[1] 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.
[2] 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

(Dollars in millions) (Unaudited)	Nine Months Ended September 30 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

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

	September 30, 2012			
(Dollars in millions)	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[1]	975	1	—	976
Total securities AFS	$20,464	$1,013	$10	$21,467

	December 31, 2011			
(Dollars in millions)	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[1]	928	1	—	929
Total securities AFS	$25,170	$2,989	$42	$28,117

[1]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.

(Dollars in millions)	Distribution of Maturities 1 Year or Less	1-5 Years	5-10 Years	After 10 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 [1]	3.47 %	2.95 %	3.68 %	3.38 %	3.03 %

[1] 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.

Notes to Consolidated Financial Statements (Unaudited), continued

	September 30, 2012					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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[1]:						
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

	December 31, 2011					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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[1]:						
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

[1]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 September 30		Nine Months Ended September 30	
(Dollars in millions)	2012	2011	2012	2011
Gross realized gains	$1,944 [1]	$4	$1,980 [1]	$180
Gross realized losses	—	(2)	—	(80)
OTTI	(3)	—	(7)	(2)
Net securities gains	$1,941	$2	$1,973	$98

[1]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 September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
(Dollars in millions)	MBS - Private	MBS - Private	MBS - Private	MBS - Private
OTTI[1]	$3	$—	$7	$3
Portion of losses recognized in OCI (before taxes)	—	—	—	(1)
Net impairment losses recognized in earnings	$3	$—	$7	$2

[1] 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:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	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, 2012	December 31, 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[1]	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

[1]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

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					
	Commercial & industrial		Commercial real estate		Commercial construction	
(Dollars in millions)	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 [2]					
	Residential mortgages - nonguaranteed		Home equity products		Residential construction	
(Dollars in millions)	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[1]	2,304	2,972	1,226	1,778	74	117
Total	$23,925	$23,243	$15,019	$15,765	$805	$980

	Consumer Loans [3]					
	Other direct		Indirect		Credit cards	
(Dollars in millions)	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[1]	68	86	633	778	45	51
Total	$2,341	$2,059	$10,781	$10,165	$594	$540

[1]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.

[2]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.

[3]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:

	As of September 30, 2012				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
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[1]	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

[1]Includes $390 million of loans carried at fair value, the majority of which were accruing current.
[2]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.

	As of December 31, 2011				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
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[1]	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

[1]Includes $431 million of loans carried at fair value, the majority of which were accruing current.
[2]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.

	As of September 30, 2012			Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
(Dollars in millions)	Unpaid Principal Balance	Amortized Cost[1]	Related Allowance	Average Amortized Cost	Interest Income Recognized[2]	Average Amortized Cost	Interest Income Recognized[2]
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

[1]Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce the net book balance.
[2]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[1]	Related Allowance	Average Amortized Cost	Interest Income Recognized[2]
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

[1]Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce net book balance.
[2]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.

17

Notes to Consolidated Financial Statements (Unaudited), continued

Nonperforming assets are shown in the following table:

(Dollars in millions)	September 30, 2012	December 31, 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[1]	304	479
Other repossessed assets	10	10
Nonperforming LHFS	40	—
Total nonperforming assets	$2,085	$3,392

[1]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.

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[1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other 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[1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other 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

[1]Includes loans modified under the terms of a TDR that were charged-off during the period.
[2]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.
[3]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.

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended September 30, 2011[1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other 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[1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other 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

[1]Includes loans modified under the terms of a TDR that were charged-off during the period.
[2]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.
[3]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, 2012 [1]		Nine Months Ended September 30, 2012 [1]	
(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

[1]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, 2011 [1]		Nine Months Ended September 30, 2011 [1]	
(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

[1]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[1]	50	50		
Allowance for credit losses	$2,289	$2,650		

[1] 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:

	As of September 30, 2012							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$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

	As of December 31, 2011							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$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.

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 Banking	Diversified Commercial Banking	CIB	W&IM	Consumer Banking and Private Wealth Management	Wholesale Banking	Total
Balance, January 1, 2012	$4,854	$928	$180	$382	$—	$—	$6,344
Acquisition of assets of 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 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 Intangibles	MSRs - 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 [1]	—	(157)	—	(157)
Other changes in fair value [2]	—	(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 [1]	—	(443)	—	(443)
Other changes in fair value [2]	—	(139)	—	(139)
Sale of MSRs	—	(7)	—	(7)
Other	—	—	7	7
Balance, September 30, 2011	$44	$1,033	$61	$1,138

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

[2] Represents changes due to the collection of expected cash flows, net of accretion, due to 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 MSRs on residential loans with an unpaid principal balance of $1.7 billion. Because MSRs are reported at fair value, the sale did not have a material impact on mortgage servicing related income.

At the end of each quarter, the Company determines the fair value of the MSRs using a valuation model that calculates the present value of the estimated future net servicing income. The model incorporates a number of assumptions as MSRs 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 MSRs. 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 MSRs 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 MSRs	$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 MSRs. 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

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.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	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:

	Portfolio Balance[1]		Past Due[2]		Net Charge-offs			
					For the Three Months Ended September 30		For the Nine Months Ended September 30	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011				
(Dollars in millions)					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 loans:								
Commercial	1,785	1,978	24	43	—	—	—	—
Residential	107,392	114,342	2,419 [3]	3,310 [3]	7	12	23	39
Total managed loans	$230,994	$238,815	$5,278	$8,284	$518	$504	$1,306	$1,607

[1]Excludes $5,205 million and $2,353 million of loans held for sale at September 30, 2012 and December 31, 2011, respectively.
[2]Excludes $1,167 million and $3 million of past due loans held for sale at September 30, 2012 and December 31, 2011, respectively.
[3]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.

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

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 September 30		Nine Months Ended 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

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:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	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:

	Three Months Ended September 30			
	2012		2011	
(Dollars in millions)	Retirement Benefits	Other Postretirement Benefits	Retirement Benefits	Other Postretirement 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 [1]	2	—	—	—
Net periodic (benefit)/cost	($5)	$—	$9	$1

	Nine Months Ended September 30			
	2012		2011	
(Dollars in millions)	Retirement Benefits	Other Postretirement Benefits	Retirement Benefits	Other Postretirement 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 [1]	2	—	—	—
Net periodic (benefit)/cost	($19)	$—	$26	$2

[1] Interim remeasurement 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

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

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[1]					
	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships [2]						
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 [3]						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	1,000	71	Trading liabilities	—	—
Total		1,000	71		—	—
Derivatives not designated as hedging instruments [4]						
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 [5]	52	Other liabilities	7,977	166
Trading activity [6]	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 [7]	58	Trading liabilities	1,936 [7]	53
Equity contracts - Trading activity [6]	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 [8]	1 [8]
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

[1] 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."

[2] See “Cash Flow Hedges” in this Note for further discussion.

[3] See “Fair Value Hedges” in this Note for further discussion.

[4] See “Economic Hedging and Trading Activities” in this Note for further discussion.

[5] 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.
[6] 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.
[7] 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.
[8] 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.”

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	As of December 31, 2011[1] 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 [2]						
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 [3]						
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 [4]						
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 [5]	54
Trading activity	Trading assets	113,420 [6]	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 [7]	28	Trading liabilities	1,809 [7]	23
Equity contracts - Trading activity	Trading assets	10,168 [6]	1,013	Trading liabilities	10,445	1,045
Other contracts:						
IRLCs and other	Other assets	4,909	84	Other liabilities	139 [8]	22 [8]
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

[1] 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."

[2] See “Cash Flow Hedges” in this Note for further discussion.

[3] See "Fair Value Hedges" in this Note for further discussion.

[4] See “Economic Hedging and Trading Activities” in this Note for further discussion.

[5] 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.

[6] 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.

[7] 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.
[8] 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

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[1]	80	Interest and fees on loans	84	247	250
Equity contracts hedging Securities AFS[2]	$10	Net securities gains	($365)	($171)	($365)
Total	$90		($281)	$76	($115)

[1] 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.
[2] 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[1]						
Interest rate contracts hedging Fixed rate debt	$3	($3)	$—	$10	($10)	$—
Interest rate contracts hedging Securities AFS	—	—	—	1	(1)	—
Total	$3	($3)	$—	$11	($11)	$—

[1] 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) 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 [1]	(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

[1] 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:

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011	
(Dollars in millions)	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/(los reclassified from AOCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships					
Equity contracts hedging Securities AFS	$8		$—	($2)	$—
Interest rate contracts hedging Floating rate loans[1]	438	Interest and fees on loans	103	673	321
Total	$446		$103	$671	$321

[1] 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, 2011			Nine Months Ended September 30, 2011		
	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						
Interest rate contracts hedging Fixed rate debt[1]	$35	($35)	$—	$49	($50)	($1)

[1] Amounts are recognized in trading income in the Consolidated Statements of Income.

39

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, 2011	Amount of gain/(loss) recognized in Income on Derivatives for the Nine Months Ended September 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 (loss)/income	(130)	(233)
Trading activity	Trading income	41	78
Foreign exchange rate contracts covering:			
Commercial loans and 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 (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

41

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 LHFI 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.

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[1]	$3.4	$4.0	$7.7	$7.7	$18.5	$11.2	$11.6	$14.9	$79.0
Ginnie Mae[1]	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

[1] 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

44

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 September 30		Nine Months Ended September 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

45

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.

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.

		Fair Value Measurements at September 30, 2012 Using		
(Dollars in millions)	Assets/Liabilities	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Trading assets:				
U.S. Treasury securities	$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 [1]	(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 [2]	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 [3]	477	2	277	198
Liabilities				
Trading liabilities:				
U.S. Treasury securities	473	473	—	—

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 [1]	(1,340)			
Total trading liabilities	1,458			
Brokered time deposits	900	—	900	—
Long-term debt	2,050	—	2,050	—
Other liabilities [3,4]	194	—	162	32

[1]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.
[2]Includes at cost, $432 million of FHLB of Atlanta stock, $401 million of Federal Reserve Bank stock, and $141 million in mutual fund investments.
[3]These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk.
[4]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.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Assets/Liabilities	Fair Value Measurements at December 31, 2011 Using Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Trading assets:				
U.S. Treasury securities	$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 [1]	(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 [2]	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 [3]	554	7	463	84
Liabilities				
Trading liabilities:				
U.S. Treasury securities	569	569	—	—
Corporate and other debt securities	77	—	77	—

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

[1]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.
[2] Includes at cost, $342 million of FHLB of Atlanta stock, $398 million of Federal Reserve Bank stock, and $187 million in mutual fund investments.
[3]These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk.
[4]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 Fair Value September 30, 2012	Aggregate Unpaid Principal Balance under FVO September 30, 2012	Fair Value Over/(Under) 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 Fair Value December 31, 2011	Aggregate Unpaid Principal Balance under FVO December 31, 2011	Fair Value Over/(Under) 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

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 September 30, 2012, for Items Measured at Fair Value Pursuant to Election of the FVO				Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2012, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Income	Mortgage Production Related (Loss)/Income [1]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current-Period Earnings [2]	Trading Income	Mortgage Production Related (Loss)/Income [1]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current-Period Earnings [2]
Assets								
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)
Liabilities								
Brokered time deposits	(3)	—	—	(3)	4	—	—	4
Long-term debt	(41)	—	—	(41)	(55)	—	—	(55)

[1]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.

[2]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 September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO				Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Income	Mortgage Production Related (Loss)/Income [1]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current	Trading Income	Mortgage Production Related (Loss)/Income [1]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current

				Period Earnings [2]				Period Earnings [2]
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)

[1]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.
[2]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

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

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 MSRs 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 MSRs are determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair values of MSRs are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, 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 MSRs, and the derivative that the Company obtained as a result of its sale of Visa Class B shares.

The fair value of IRLCs on residential mortgage LHFS, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on the Company's historical data and reflect the Company's best estimate of the likelihood that a commitment will ultimately result in a closed loan. 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 MSRs, 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

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:

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

[1]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."
[2]Not meaningful.
[3]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 balance July 1, 2012	Included in earnings	OCI	Sales	Settlements	Transfers to/from other balance sheet line items	Transfers into Level 3	Fair value September 30, 2012	Included in earnings (held at September 30, 2012) [1]
Assets									
Trading assets:									
MBS - private	$1	$—	$—	$—	$—	$—	$—	$1	$—
CDO/CLO securities	43	4	—	—	—	—	—	47	4
ABS	5	—	—	—	—	—	—	5	—
Total trading assets	49	4 [2]	—	—	—	—	—	53	4 [2]
Securities AFS:									
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) [3]	23	—	(36)	—	—	1,126	(3) [3]
LHFS:									
Residential loans	2	—	—	(5)	—	2	5	4	—
LHFI	406	3 [4]	—	—	(14)	(6)	1	390	—
Other assets/(liabilities), net	101	331 [5]	—	—	3	(269)	—	166	—
Liabilities									
Derivative contracts	(349)	(305) [3]	355 [6]	—	299	—	—	—	—

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) [1]
Assets											
Trading assets:											
MBS - private	$1	$—	$—	$—	$—	$—	$—	$—	$—	$1	$—
CDO/CLO securities	43	4	—	—	—	—	—	—	—	47	4
ABS	5	—	—	—	—	—	—	—	—	5	—
Total trading assets	49	4 [2]	—	—	—	—	—	—	—	53	4 [2]
Securities AFS:											
U.S. states and political subdivisions	58	—	—	—	—	(7)	—	—	—	51	—
MBS - private	221	(7)	35	—	—	(32)	—	—	—	217	(7)
ABS	16	—	4	—	—	(2)	—	—	—	18	—
Corporate and other debt securities	5	—	—	2	—	(2)	—	—	—	5	—
Other equity securities	741	—	—	163	—	(69)	—	—	—	835	—
Total securities AFS	1,041	(7) [3]	39	165	—	(112)	—	—	—	1,126	(7) [3]
LHFS:											
Residential loans	1	—	—	—	(6)	—	4	10	(5)	4	—
LHFI	433	4 [4]	—	—	—	(40)	(10)	4	(1)	390	1 [4]
Other assets/(liabilities), net	62	769 [5]	—	(31)	—	25	(659)	—	—	166	—
Liabilities											
Derivative contracts	(189)	(304) [3]	194 [6]	—	—	299	—	—	—	—	—

[1] Change in unrealized gains/(losses) included in earnings during the period related to financial assets still held at September 30, 2012.
[2] Amounts included in earnings are recorded in trading income.
[3] Amounts included in earnings are generally recorded in net securities gains, however, any related hedge ineffectiveness is recorded in trading income.
[4] Amounts are generally included in mortgage production related (loss)/income; however, the mark on certain fair value loans is included in trading income.
[5] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related (loss)/income.
[6] 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."

60

Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value Measurements
Using Significant Unobservable Inputs

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

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 balance 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) [1]
Assets											
Trading assets:											
MBS - private	$6	$2	$—	$—	($5)	($2)	$—	$—	$—	$1	$—
CDO/CLO securities	53	25	—	6	(21)	(1)	(20)	—	—	42	11
ABS	27	9	—	—	(31)	—	—	—	—	5	2
Equity securities	123	13	—	—	—	(129)	—	—	—	7	1
Total trading assets	209	49 [2]	—	6	(57)	(132)	(20)	—	—	55	14 [2]
Securities AFS:											
U.S. states and political subdivisions	74	2	1	—	(4)	(11)	—	—	—	62	—
MBS - private	347	(3)	—	—	—	(57)	—	—	—	287	(3)
ABS	20	—	(1)	—	—	(3)	—	—	—	16	—
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5	—
Other equity securities	690	—	—	—	—	(127)	—	—	—	563	—
Total securities AFS	1,136	(1) [3]	—	—	(4)	(198)	—	—	—	933	(3) [3]
LHFS:											
Residential loans	2	(1) [4]	—	—	(15)	(1)	—	19	(2)	2	—
Corporate and other loans	5	(1) [5]	—	—	—	—	(4)	—	—	—	—
LHFI	492	16 [6]	—	—	—	(46)	(10)	—	—	452	13 [6]
Other assets/(liabilities), net	(24)	229 [4]	—	—	—	7	(149)	—	—	63	—
Liabilities											
Derivative contracts	(145)	1 [2]	(2) [7]	—	—	—	—	—	—	(146)	1 [2]

[1] Change in unrealized gains/(losses) included in earnings for the period related to financial assets still held at September 30, 2011.
[2] Amounts included in earnings are recorded in trading income.
[3] Amounts included in earnings are recorded in net securities gains.
[4] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related (loss)/income.
[5] Amounts included in earnings are recorded in other noninterest (loss)/income.
[6] Amounts are generally included in mortgage production related (loss)/income, however, the mark on certain fair value loans is included in trading income.
[7] 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."

62

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)

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.

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

(c) LHFS are generally valued based on observable current market prices or, if quoted market prices are not available, on quoted market prices of similar instruments. 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.

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

(e) 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 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

66

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.

(f) 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. 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.

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), 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) 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.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2012 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling 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 [1]	641	470	130	80	(20)	1,301
Provision for credit losses [2]	163	78	270	—	(61)	450
Net interest income/(loss) after provision 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) for income taxes	80	209	(586)	1,926	38	1,667
Provision/(benefit) for income taxes [3]	30	57	(198)	658	34	581
Net income/(loss) including income attributable to noncontrolling interest	50	152	(388)	1,268	4	1,086
Net income attributable to noncontrolling 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 Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling 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 [1]	630	442	116	129	(24)	1,293
Provision for credit losses [2]	181	167	144	—	(145)	347
Net interest income/(loss) after provision 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) for income taxes	98	69	(227)	228	121	289
Provision/(benefit) for income taxes [3]	36	5	(89)	77	46	75
Net income/(loss) including income attributable to noncontrolling interest	62	64	(138)	151	75	214

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

[1]Net interest income is FTE and is presented on a matched maturity funds transfer price basis for the segments.
[2]Provision for credit losses represents net charge-offs for the segments.
[3]Includes regular income tax provision/(benefit) and taxable-equivalent income adjustment reversal.

75

Notes to Consolidated Financial Statements (Unaudited), continued

	Nine Months Ended September 30, 2012					
(Dollars in millions)	Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling 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 [1]	1,905	1,393	388	303	(40)	3,949
Provision for credit losses [2]	435	246	602	—	(216)	1,067
Net interest income/(loss) after provision 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 income taxes	344	694	(1,006)	2,218	177	2,427
Provision/(benefit) for income taxes [3]	126	194	(367)	761	89	803
Net income/(loss) including income attributable to noncontrolling interest	218	500	(639)	1,457	88	1,624
Net income attributable to noncontrolling interest	—	14	—	7	1	22
Net income/(loss)	$218	$486	($639)	$1,450	$87	$1,602

	Nine Months Ended September 30, 2011					
(Dollars in millions)	Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling 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 [1]	1,869	1,282	348	372	(16)	3,855
Provision for credit losses [2]	560	488	520	—	(382)	1,186
Net interest income/(loss) after provision 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 income taxes	248	293	(738)	630	367	800
Provision/(benefit) for income taxes [3]	91	44	(287)	229	143	220
Net income/(loss) including income attributable to noncontrolling interest	157	249	(451)	401	224	580

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

[1]Net interest income is FTE and is presented on a matched maturity funds transfer price basis for the segments.
[2]Provision for credit losses represents net charge-offs for the segments.
[3]Includes regular income tax provision/(benefit) and taxable-equivalent income adjustment reversal.

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,” “targ “initiatives,” “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. an 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.