

Form

Unknown document format

x;padding-bottom:2px;padding-right:2px;">

9

10

Expected return on plan assets

(173

)

(188

)

(183

)

(7

)

(7

)

(7

)

Amortization of prior service credit

—

(16

)

(11

)

—

—

(1

)

Recognized net actuarial loss

25

39

62

—

1

1

Curtailment gain

—

(88  
)

—

—

—

—

Settlement loss

2

—

—

—

—

—

Net periodic (benefit)/cost

(\$27  
)

(\$63  
)

\$66

\$—

\$3

\$3

Weighted average assumptions used to determine net cost:

Discount rate

4.63  
%

5.59  
%

1

6.32  
%

4.10  
%

5.10  
%

5.70  
%

Expected return on plan assets  
7.00

7.72

2

8.00

4.06

3

4.39

3

4.39

3

Rate of compensation increase  
N/A

4.00

4.00

N/A

N/A

N/A

<sup>1</sup>Interim remeasurement was required on November 14, 2011 due to plan amendments adopted at that time. The discount rate as of the remeasurement date was selected based on economic conditions on that date.

<sup>2</sup>As part of the interim remeasurement on November 14, 2011, the expected return on plan assets was reduced from 7.75% to 7.25% for the SunTrust Pension Plan and the NCF Retirement Plan.

<sup>3</sup>The weighted average shown for the Other Postretirement Benefit plan is determined on an after-tax basis.

## Notes to Consolidated Financial Statements (Continued)

Other changes in plan assets and benefit obligations recognized in OCI during 2012 were as follows:

(Dollars in millions)	Pension Benefits	Other Postretirement Benefits	
Current year actuarial loss/(gain)	\$64	(\$12	)
Recognition of actuarial loss	(25	)	—
Settlements	(2	)	—
Total recognized in OCI, pre-tax	\$37	(\$12	)
Total recognized in net periodic benefit cost and OCI, pre-tax	\$11	(\$12	)

The estimated actuarial loss that will be amortized from AOCI into net periodic benefit cost in 2013 is \$26 million.

Additionally, SunTrust sets pension asset values equal to their market value, in contrast to the use of a smoothed asset value that incorporates gains and losses over a period of years. Utilization of market value of assets provides a more realistic economic measure of the plan's funded status and cost. Assumed discount rates and expected returns on plan assets affect the amounts of net periodic benefit cost. A 25 basis point decrease in the discount rate or expected long-term return on plan assets would increase all Pension and Other Postretirement Plans' net periodic benefit cost approximately less than \$1 million and \$7 million, respectively.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the Other Postretirement Benefit plans. As of December 31, 2012, SunTrust assumed that pre-65 retiree health care costs will increase at an initial rate of 8.00% per year. SunTrust assumed a healthcare cost trend that recognizes expected inflation, technology advancements, rising cost of prescription drugs, regulatory requirements and Medicare cost shifting. SunTrust expects this annual cost increase to decrease over a 6-year period to 5.00% per year. As of December 31, 2012, SunTrust assumed that post-65 retiree health costs will increase at an initial rate of 7.50% per year. SunTrust expects this annual cost increase to decrease over a 5-year period to 5.00% per year.

Due to changing medical inflation, it is important to understand the effect of a one percentage point change in assumed healthcare cost trend rates. These amounts are shown below:

(Dollars in millions)	1% Increase	1% Decrease	
Effect on Other Postretirement Benefit obligation	\$11	(\$9	)
Effect on total service and interest cost <sup>1</sup>	—	—	

<sup>1</sup> Impact is less than \$1 million.

#### NOTE 16 - 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. ALCO monitors all derivative activities. 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 daily exposure 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. 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 counterparties with defined exposure limits based on credit quality 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

## Notes to Consolidated Financial Statements (Continued)

of all positions with that counterparty if an asset, adjusted for held collateral. As of December 31, 2012, net derivative asset positions were \$1.8 billion, representing the \$2.6 billion of derivative gains adjusted for collateral of \$0.8 billion that the Company held in relation to these gain positions. As of December 31, 2011, net derivative asset positions were \$2.4 billion, representing \$3.6 billion of derivative gains, adjusted for collateral of \$1.2 billion that the Company held 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 PD 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 and defined exposure limits are explicitly approved. 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 \$29 million and \$36 million as of December 31, 2012 and 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 netting 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 netting 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 \$1.3 billion in fair value at December 31, 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 December 31, 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 \$9 million in fair value liabilities as of December 31, 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 \$3 million at December 31, 2012; ATEs do not exist at lower ratings levels. At December 31, 2012, \$1.3 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 December 31, 2012, of \$5 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 as of December 31, 2012 and 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 December 31, 2012 and 2011. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements, including collateral arrangements. 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. For contracts that contain a combination of options, the fair value is generally presented as a single value with the

156

---

## Notes to Consolidated Financial Statements (Continued)

purchased notional amount if the combined fair value is positive, and with the written notional amount, if the combined fair value is negative.

(Dollars in millions)	As of December 31, 2012 <sup>1</sup>			Liability Derivatives		
	Asset Derivatives Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships <sup>2</sup>						
Interest rate contracts hedging:						
Floating rate loans	Trading assets	\$17,350	\$771	Trading liabilities	\$—	\$—
Total		17,350	771		—	—
Derivatives designated in fair value hedging relationships <sup>3</sup>						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	1,000	61	Trading liabilities	—	—
Total		1,000	61		—	—
Derivatives not designated as hedging instruments <sup>4</sup>						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	—	—	Trading liabilities	60	10
MSRs	Other assets	6,185	150	Trading/Other liabilities	12,643	33
LHFS, IRLCs <sup>5</sup>	Other assets	2,333	6	Other liabilities	7,076	15
Trading activity <sup>6</sup>	Trading assets	81,930	6,044	Trading liabilities	86,037	5,777
Foreign exchange rate contracts covering:						
Commercial loans	Trading assets	—	—	Trading liabilities	34	—
Trading activity	Trading assets	2,451	66	Trading liabilities	2,326	63
Credit contracts covering:						
Loans	Trading/Other assets	—	—	Other liabilities	445	8
Trading activity <sup>7</sup>	Trading assets	1,958	55	Trading liabilities	2,081	49
Equity contracts - Trading activity <sup>6</sup>	Trading assets	15,748	1,342	Trading liabilities	22,184	1,529
Other contracts:						
IRLCs and other <sup>8</sup>	Trading/Other assets	6,783	132	Other liabilities	142	1
Trading activity	Trading assets	255	29	Trading liabilities	255	29
Total		117,643	7,824		133,283	7,514
Total derivatives		\$135,993	\$8,656		\$133,283	\$7,514

<sup>1</sup> The Company offsets cash collateral paid to and received from derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements and meet the derivative offsetting requirements. The effects of offsetting on the Company's Consolidated Balance Sheets as of December 31, 2012, are presented in Note 18, "Fair Value Election and Measurement." In some situations, trading derivatives are offset with derivatives used for risk management purposes that are recorded in other assets or other liabilities. As a result, the Company may reclass balances between trading assets or liabilities and other assets or other liabilities based on the predominant account.

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

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

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

<sup>5</sup> Amount includes \$1.7 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair

value column of this table.

<sup>6</sup> Amounts include \$16.2 billion and \$0.8 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative assets/liabilities associated with the one day lag are included in the fair value column of this table.

<sup>7</sup> Asset and liability amounts each include \$3 million of notional from purchased and written credit risk participation agreements, respectively, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.

<sup>8</sup> Includes \$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 17, "Reinsurance Arrangements and Guarantees."

## Notes to Consolidated Financial Statements (Continued)

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

<sup>1</sup> The Company offsets cash collateral paid to and received from derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements and meet the derivative offsetting requirements. The effects of offsetting on the Company's Consolidated Balance Sheets as of December 31, 2011, are presented in Note 18, "Fair Value Election and Measurement."

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

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

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

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

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

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

<sup>8</sup> Includes a \$22 million derivative liability recognized in other liabilities in the Consolidated Balance Sheets, related to a notional amount of \$134 million. The notional amount is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009 as discussed in Note 17, "Reinsurance Arrangements and Guarantees."

## Notes to Consolidated Financial Statements (Continued)

## 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 years ended December 31, 2012, 2011, and 2010, are presented below. The impacts are segregated between those derivatives that are designated in hedging relationships and those that are used for economic hedging or trading purposes, with further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge.

(Dollars in millions)	Year Ended December 31, 2012		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)	Classification of gain/(loss) reclassified from AOCI into Income (Effective Portion)	
Derivatives in cash flow hedging relationships:			
Equity contracts hedging Securities AFS <sup>1</sup>	(\$171	) Net securities gains	(\$365
Interest rate contracts hedging Floating rate loans <sup>2</sup>	252	Interest and fees on loans	337
Total	\$81		(\$28

<sup>1</sup> During the year ended December 31, 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.

<sup>2</sup> During the year ended December 31, 2012, the Company also reclassified \$171 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.

(Dollars in millions)	Year Ended December 31, 2012		Amount of gain/(loss) recognized in Income on Hedges (Ineffective Portion)
	Amount of gain on Derivatives recognized in Income	Amount of loss on related Hedged Items recognized in Income	
Derivatives in fair value hedging relationships: <sup>1</sup>			
Interest rate contracts hedging Fixed rate debt	\$5	(\$5	) \$—
Interest rate contracts hedging Securities AFS	1	(1	) —
Total	\$6	(\$6	) \$—

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

(Dollars in millions)	Classification of gain/(loss) recognized in Income on Derivatives	Amount of gain/(loss) recognized in Income on Derivatives for the Year Ended December
-----------------------	---	---

31, 2012

## Derivatives not designated as hedging instruments:

## Interest rate contracts covering:

Fixed rate debt	Trading income	(\$2	)
MSRs	Mortgage servicing related income	284	
LHFS, IRLCs	Mortgage production related income/(loss)	(331	)
Trading activity	Trading income	86	
Foreign exchange rate contracts covering:			
Commercial loans and foreign-denominated debt	Trading income	129	
Trading activity	Trading income	14	
Credit contracts covering:			
Loans	Other income <sup>1</sup>	(8	)
Trading activity	Trading income	24	
Equity contracts - trading activity	Trading income	8	
Other contracts:			
IRLCs <sup>2</sup>	Mortgage production related income/(loss)	930	
Total		\$1,134	

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

<sup>2</sup> Substantially all of this amount is included in the fair value gain/(loss) for LHFS measured at fair value pursuant to election of the FVO, as shown in Note 18, "Fair Value Election and Measurement".

Edgar Filing: - Form

Notes to Consolidated Financial Statements (Continued)

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the year ended December 31, 2011, are presented below:

(Dollars in millions)	Year Ended December 31, 2011		
	Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion)	Classification of gain reclassified from AOCI into Income (Effective Portion)	Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Equity contracts hedging Securities AFS	(\$46	)	\$—
Interest rate contracts hedging Floating rate loans <sup>1</sup>	730	Interest and fees on loans	423
Total	\$684		\$423

<sup>1</sup> During the year ended December 31, 2011, the Company also reclassified \$202 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)	Year Ended December 31, 2011		
	Amount of gain on Derivatives recognized in Income	Amount of loss on related Hedged Items recognized in Income	Amount of loss recognized in Income on Hedges (Ineffective Portion)
Derivatives in fair value hedging relationships:			
Interest rate contracts hedging Fixed rate debt <sup>1</sup>	\$51	(\$52	) (\$1

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

(Dollars in millions)	Classification of gain/(loss) recognized in Income on Derivatives	Amount of gain/(loss) recognized in Income on Derivatives for the Year Ended December 31, 2011
Derivatives not designated as hedging instruments:		
Interest rate contracts covering:		
Fixed rate debt	Trading income	(\$5
MSRs	Mortgage servicing related income	572
LHFS, IRLCs, LHFI-FV	Mortgage production related income/(loss)	(281
Trading activity	Trading income	113
Foreign exchange rate contracts covering:		
Commercial loans and foreign-denominated debt	Trading income	(4
Trading activity	Trading income	18
Credit contracts covering:		
Loans	Trading income	(1
Trading activity	Trading income	15
Equity contracts - trading activity	Trading income	(3
Other contracts:		



Edgar Filing: - Form

IRLCs <sup>1</sup>	Mortgage production related income/(loss)	355
Total		\$779

<sup>1</sup> The majority of this amount is included in the fair value gain/(loss) for LHFS measured at fair value pursuant to election of the FVO, as shown in Note 18, "Fair Value Election and Measurement".

160

---

Edgar Filing: - Form

Notes to Consolidated Financial Statements (Continued)

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the year ended December 31, 2010, are presented below:

(Dollars in millions)	Year Ended December 31, 2010		
	Amount of pre-tax gain/(loss) recognized in OCI on Derivatives (Effective Portion)	Classification of gain reclassified from AOCI into Income (Effective Portion)	Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion)
Derivatives in cash flow hedging relationships:			
Equity contracts hedging Securities AFS	(\$101 )		\$—
Interest rate contracts hedging Floating rate loans <sup>1</sup>	903	Interest and fees on loans	487
Total	\$802		\$487

<sup>1</sup> During the year ended December 31, 2010, the Company also reclassified \$130 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)	Classification of gain/(loss) recognized in Income on Derivatives	Amount of gain/(loss) recognized in Income on Derivatives for the Year Ended December 31, 2010
Derivatives not designated as hedging instruments:		
Interest rate contracts covering:		
Fixed rate debt	Trading income	(\$64 )
Corporate bonds and loans	Trading income	(1 )
MSRs	Mortgage servicing related income	444
LHFS, IRLCs, LHFI-FV	Mortgage production related income/(loss)	(176 )
Trading activity	Trading income	304
Foreign exchange rate contracts covering:		
Foreign-denominated debt and commercial loans	Trading income	(94 )
Trading activity	Trading income	7
Credit contracts covering:		
Loans	Trading income	(2 )
Trading activity	Trading income	10
Equity contracts - trading activity	Trading income	(53 )
Other contracts:		
IRLCs <sup>1</sup>	Mortgage production related income/(loss)	392
Total		\$767

<sup>1</sup> Amount is included in the fair value gain/(loss) for LHFS measured at fair value pursuant to election of the FVO, as shown in Note 18, "Fair Value Election and Measurement".

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 December 31, 2012 and 2011, all written CDS contracts reference single name corporate credits or corporate credit indices. When the Company has written CDS, it has generally entered into offsetting CDS for the underlying reference asset, under which the Company paid a premium to its counterparty for protection against an event of default on the reference asset. The counterparties to these purchased CDS are generally of high creditworthiness and typically have ISDA master netting agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at December 31, 2012 and 2011, the Company did not have any significant risk of

## Notes to Consolidated Financial Statements (Continued)

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 December 31, 2012 and 2011, the written CDS had remaining terms ranging from less than one year to three years. The maximum guarantees outstanding at December 31, 2012 and 2011, as measured by the gross notional amounts of written CDS, were \$52 million and \$167 million, respectively. At December 31, 2012 and 2011, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were \$175 million. The fair values of written CDS were \$1 million and \$4 million at December 31, 2012 and 2011, respectively, and the fair values of purchased CDS were immaterial and \$6 million at December 31, 2012 and 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 December 31, 2012 and 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 December 31, 2012, were \$51 million and \$46 million, respectively, and related collateral held at December 31, 2012, was \$282 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.

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 December 31, 2012 and 2011, the remaining terms on these risk participations generally ranged from one year to ten years with a weighted average on the maximum estimated exposure of 4.4 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 \$20 million and \$57 million at December 31, 2012 and 2011, respectively. The fair values of the written risk participations were not material at both December 31, 2012 and 2011. As part of its trading activities, the Company may enter into purchased risk participations to mitigate credit exposure to a derivative counterparty.

#### 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 December 31, 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 December 31, 2012 and 2011, the maximum range of hedge maturities for hedges of floating

rate loans was less than one year to five years, with the weighted average being 2.4 years and 3.4 years, respectively. Ineffectiveness on these hedges was not material during the years ended December 31, 2012 and 2011. As of December 31, 2012, \$398 million 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 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) 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

## Notes to Consolidated Financial Statements (Continued)

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 ineffectiveness gains of \$1 million and \$2 million during the years ended December 31, 2012 and 2011, respectively.

During 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 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.

163

---

## Notes to Consolidated Financial Statements (Continued)

The Company was exposed to foreign exchange rate risk associated with certain senior notes and loans. 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 17 – 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 December 31, 2012 and 2011, approximately \$5.2 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 December 31, 2012 and 2011, the total loss exposure ceded to the Company was approximately \$179 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 \$6 million as of December 31, 2012. Of this amount, \$3 million of losses have been reserved for as of December 31, 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 and 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 \$11 million, \$26 million, and \$38 million for each of the years ended December 31, 2012, 2011, and 2010, respectively, is reported as part of other noninterest income. The related provision for losses, which totaled \$11 million, \$28 million, and \$27 million for each of the years ended December 31, 2012, 2011, and 2010, 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 make future payments should certain



triggering events occur. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provisions of the Company's services. The following is a discussion of the guarantees that the Company has issued as of December 31, 2012. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives (see Note 16, "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

## Notes to Consolidated Financial Statements (Continued)

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 December 31, 2012 and 2011, the maximum potential amount of the Company's obligation was \$4.0 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 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 7, "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 December 31, 2012 and 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 December 31, 2012, which totaled \$270.0 billion at the time of sale, consisting of \$208.8 billion and \$30.2 billion of agency and non-agency loans, respectively, as well as \$31.0 billion of loans sold to Ginnie Mae. The composition of the remaining outstanding balance by vintage and type of buyer as of December 31, 2012, is shown in the following table:

(Dollars in billions)	Remaining Outstanding Balance by Year of Sale								
	2005	2006	2007	2008	2009	2010	2011	2012	Total
GSE <sup>1</sup>	\$3.1	\$3.6	\$7.0	\$6.8	\$16.4	\$10.1	\$10.7	\$20.1	\$77.8
Ginnie Mae <sup>1</sup>	0.6	0.4	0.4	1.9	4.2	3.2	2.5	4.3	17.5
Non-agency	3.6	5.3	3.9	—	—	—	—	—	12.8
Total	\$7.3	\$9.3	\$11.3	\$8.7	\$20.6	\$13.3	\$13.2	\$24.4	\$108.1

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

## Edgar Filing: - Form

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 non-agency investors are generally required to demonstrate that the alleged breach was material and 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 19, "Contingencies," during the second

## Notes to Consolidated Financial Statements (Continued)

quarter of 2012, 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, Ginnie Mae, and non-agency investors, for all vintages, were \$1.7 billion, \$1.7 billion, and \$1.1 billion during the years ended December 31, 2012, 2011, and 2010, respectively, and on a cumulative basis since 2005 totaled \$7.1 billion. The majority of these requests are from GSEs, with a limited number of requests from non-agency investors. Repurchase requests from non-agency investors were \$22 million, \$50 million, and \$55 million, during the years ended December 31, 2012, 2011, and 2010, respectively. Additionally, loans originated during 2006 - 2008 have consistently comprised the vast majority of total repurchase requests during the past three years.

Freddie Mac is re-examining loans originated in 2004-2005. Of the 2004-2005 loans sold to the GSEs, only approximately 15% were sold to Freddie Mac and the Company believes the existing reserve is sufficient to cover any incremental demands relating to these 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 contests demands to the extent they are not considered valid.

At December 31, 2012, the unpaid principal balance of loans related to unresolved requests previously received from investors was \$655 million, comprised of \$639 million from the GSEs and \$16 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.

A significant degree of judgment is used to estimate the mortgage repurchase liability as the estimation process is inherently uncertain and subject to imprecision. Recent information received from the GSEs, as well as the Company's recent experience related to full file requests and repurchase demands, 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. As a result, the Company increased the reserve during the year ended December 31, 2012. As of December 31, 2012 and 2011, the Company's estimate of the liability for incurred losses related to all vintages of mortgage loans sold totaled \$632 million and \$320 million, respectively. The liability is recorded in other liabilities in the Consolidated Balance Sheets, and the related repurchase provision is recognized in mortgage production related income/(loss) in the Consolidated Statements of Income. The following table summarizes the changes in the Company's reserve for mortgage loan repurchases:

(Dollars in millions)	Year Ended December 31		
	2012	2011	2010
Balance at beginning of period	\$320	\$265	\$200
Repurchase provision	713	502	456
Charge-offs	(401	) (447	) (391
Balance at end of period	\$632	\$320	\$265

During the years ended December 31, 2012 and 2011, the Company repurchased or otherwise settled mortgages with unpaid principal balances of \$769 million and \$789 million, respectively, related to investor demands. As of December 31, 2012 and 2011, the carrying value of outstanding repurchased mortgage loans, net of any allowance for loan losses, totaled \$240 million and \$252 million, respectively, of which \$41 million and \$134 million, respectively, were nonperforming.

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. The Company recognizes a liability for contingent losses when MSR's are sold, which totaled \$12 million and \$8 million as of December 31, 2012 and 2011, respectively. The liability is inclusive of a reserve for costs associated with foreclosure delays of loans serviced for GSEs.

**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

## Notes to Consolidated Financial Statements (Continued)

representing the fair value of the contingent payments was \$30 million and \$10 million as of December 31, 2012 and 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 restructuring, each member's indemnification obligation is limited to losses arising from its own conduct and the specifically defined Litigation.

Agreements associated with Visa's IPO have provisions that Visa will fund a litigation escrow account, established for the purpose of funding judgments in, or settlements of, the Litigation. Since inception of the escrow account, Visa has funded \$8.2 billion, approximately \$4.1 billion of which has been paid out in Litigation settlements. 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 December 31, 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 \$26 million, \$8 million, and \$17 million, during the years ended December 31, 2012, 2011, and 2010, respectively. The estimated fair value of the derivative liability recorded as of December 31, 2012 and 2011, was \$1 million and \$22 million, respectively.

During 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, of which, \$0.3 billion has been paid from the escrow account as of December 31, 2012, and the remaining \$4.1 billion, which will be paid upon settlement from its 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2012 and 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.

## Notes to Consolidated Financial Statements (Continued)

## Public Deposits

The Company holds public deposits from various states in which it does business. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance and may also require a cross-guarantee among all banks holding public deposits of the individual state. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Certain of the states in which the Company holds public deposits use a pooled collateral method, whereby in the event of default of a bank holding public deposits, the collateral of the defaulting bank is liquidated to the extent necessary to recover the loss of public deposits of the defaulting bank. To the extent the collateral is insufficient, the remaining public deposit balances of the defaulting bank are recovered through an assessment of the other banks holding public deposits in that state. The maximum potential amount of future payments the Company could be required to make is dependent on a variety of factors, including the amount of public funds held by banks in the states in which the Company also holds public deposits and the amount of collateral coverage associated with any defaulting bank. Individual states appear to be monitoring this risk relative to the current economic environment and evaluating collateral requirements; therefore, the likelihood that the Company would have to perform under this guarantee is dependent on whether any banks holding public funds default as well as the adequacy of collateral coverage.

## 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.

STIS and STRH, broker-dealer affiliates of SunTrust, use a common third-party clearing broker to clear and execute their customers' securities transactions and to hold customer accounts. Under their respective agreements, STIS and STRH agree to indemnify the clearing broker for losses that result from a customer's failure to fulfill its contractual obligations. As the clearing broker's rights to charge STIS and STRH have no maximum amount, the Company believes that the maximum potential obligation cannot be estimated. However, to mitigate exposure, the affiliate may seek recourse from the customer through cash or securities held in the defaulting customers' account. For the years ended December 31, 2012, 2011, and 2010, STIS and STRH experienced minimal net losses as a result of the indemnity. The clearing agreements expire in May 2015 for both STIS and STRH.

## NOTE 18 - 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 involves 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

## Notes to Consolidated Financial Statements (Continued)

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 and determines whether pricing differences exceed acceptable thresholds. If the pricing differences exceed acceptable thresholds, then the Company reviews differences in valuation approaches used at each pricing service, which may include contacting that 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 the fair value estimates for level 3 securities AFS and trading assets and liabilities are internally developed, since the selection of unobservable inputs is subjective. This cross-functional approach includes input on assumptions not only from the related line of business, but also from risk management and finance. A consensus of the estimate of the instrument's fair value is reached 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 involves judgment and is based on a variety of subjective factors. These factors are used in the assessment of whether a market is inactive, resulting in the application of significant unobservable assumptions in the valuation of 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 includes consideration of illiquidity in the current market environment.

## Notes to Consolidated Financial Statements (Continued)

## Recurring Fair Value Measurements

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

(Dollars in millions)	Assets/Liabilities	Fair Value Measurements at December 31, 2012 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	\$111	\$111	\$—	\$—
Federal agency securities	462	—	462	—
U.S. states and political subdivisions	34	—	34	—
MBS - agency	432	—	432	—
CDO/CLO securities	55	—	3	52
ABS	36	—	31	5
Corporate and other debt securities	567	—	566	1
CP	28	—	28	—
Equity securities	100	100	—	—
Derivative contracts	2,635	183	2,452	—
Trading loans	2,319	—	2,319	—
Gross trading assets	6,779	394	6,327	58
Offsetting collateral <sup>1</sup>	(730	)		
Total trading assets	6,049			
Securities AFS:				
U.S. Treasury securities	222	222	—	—
Federal agency securities	2,069	—	2,069	—
U.S. states and political subdivisions	320	—	274	46
MBS - agency	18,169	—	18,169	—
MBS - private	209	—	—	209
ABS	216	—	195	21
Corporate and other debt securities	46	—	41	5
Other equity securities <sup>2</sup>	702	69	—	633
Total securities AFS	21,953	291	20,748	914
LHFS:				
Residential loans	2,924	—	2,916	8
Corporate and other loans	319	—	319	—
Total LHFS	3,243	—	3,235	8
LHFI	379	—	—	379
MSRs	899	—	—	899
Other assets <sup>3</sup>	178	2	44	132
Liabilities				
Trading liabilities:				
U.S. Treasury securities	582	582	—	—
Corporate and other debt securities	173	—	173	—

Edgar Filing: - Form

Equity securities	9	9	—	—
Derivative contracts	1,656	—	1,656	—
Gross trading liabilities	2,420	591	1,829	—
Offsetting collateral <sup>1</sup>	(1,259	)		
Total trading liabilities	1,161			
Brokered time deposits	832	—	832	—
Long-term debt	1,622	—	1,622	—
Other liabilities <sup>3,4</sup>	46	—	15	31

<sup>1</sup> Amount represents the cash collateral received from or deposited with derivative counterparties. Amount is offset with derivatives in the Consolidated Balance Sheets as of December 31, 2012.

<sup>2</sup> Includes \$229 million of FHLB of Atlanta stock, \$402 million of Federal Reserve Bank stock, \$69 million in mutual fund investments, and \$2 million of other equity securities.

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

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

Edgar Filing: - Form

Notes to Consolidated Financial Statements (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	—
CDO/CLO securities	45	—	2	43
ABS	37	—	32	5
Corporate and other debt securities	345	—	344	1
CP	229	—	229	—
Equity securities	91	91	—	—
Derivative contracts	3,444	306	3,138	—
Trading loans	2,030	—	2,030	—
Gross trading assets	7,309	541	6,719	49
Offsetting collateral <sup>1</sup>	(1,030)	)		
Total trading assets	6,279			
Securities AFS:				
U.S. Treasury securities	694	694	—	—
Federal agency securities	1,932	—	1,932	—
U.S. states and political subdivisions	454	—	396	58
MBS - agency	21,223	—	21,223	—
MBS - private	221	—	—	221
CDO/CLO securities	50	—	50	—
ABS	464	—	448	16
Corporate and other debt securities	51	—	46	5
Coke common stock	2,099	2,099	—	—
Other equity securities <sup>2</sup>	929	188	—	741
Total securities AFS	28,117	2,981	24,095	1,041
LHFS:				
Residential loans	1,826	—	1,825	1
Corporate and other loans	315	—	315	—
Total LHFS	2,141	—	2,140	1
LHFI	433	—	—	433
MSRs	921	—	—	921
Other assets <sup>3</sup>	554	7	463	84
Liabilities				
Trading liabilities:				
U.S. Treasury securities	569	569	—	—
Corporate and other debt securities	77	—	77	—
Equity securities	37	37	—	—

Edgar Filing: - Form

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

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

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

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

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

## Notes to Consolidated Financial Statements (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 December 31, 2012	Aggregate Unpaid Principal Balance under FVO December 31, 2012	Fair Value Over/(Under) Unpaid Principal
Trading loans	\$2,319	\$2,285	\$34
LHFS	3,237	3,109	128
Past due loans of 90 days or more	3	5	(2)
Nonaccrual loans	3	12	(9)
LHFI	360	371	(11)
Past due loans of 90 days or more	1	3	(2)
Nonaccrual loans	18	28	(10)
Brokered time deposits	832	825	7
Long-term debt	1,622	1,462	160
(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

Edgar Filing: - Form

Notes to Consolidated Financial Statements (Continued)

The following tables present the change in fair value during the years ended December 31, 2012, 2011, and 2010, of financial instruments for which the FVO has been elected, as well as MSR's. 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 income/(loss), 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.

Fair Value Gain/(Loss) for the Year Ended  
December 31, 2012, for Items Measured at Fair Value Pursuant  
to Election of the FVO

(Dollars in millions)	Trading Income	Mortgage Production Related Income/ (Loss) <sup>1</sup>	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>2</sup>
<b>Assets</b>				
Trading loans	\$8	\$—	\$—	\$8
LHFS	10	1,043	—	1,053
LHFI	1	20	—	21
MSR's	—	31	(353)	(322)
<b>Liabilities</b>				
Brokered time deposits	5	—	—	5
Long-term debt	(65)	—	—	(65)

<sup>1</sup> For the year ended December 31, 2012, income related to LHFS includes \$882 million from IRLC's, which includes \$304 million related to MSR's recognized upon the sale of loans reported at fair value. For the year ended December 31, 2012, income related to MSR's includes \$31 million of MSR's recognized upon the sale of loans reported at LOCOM.

<sup>2</sup> Changes in fair value for the year ended December 31, 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.

Fair Value Gain/(Loss) for the Year Ended  
December 31, 2011, for Items Measured at Fair Value  
Pursuant to Election of the FVO

(Dollars in millions)	Trading Income	Mortgage Production Related Income/ (Loss) <sup>1</sup>	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>2</sup>
<b>Assets</b>				



Edgar Filing: - Form

Trading loans	\$21	\$—	\$—	\$21
LHFS	(10	) 450	—	440
LHFI	3	11	—	14
MSRs	—	7	(733	) (726 )
Liabilities				
Brokered time deposits	32	—	—	32
Long-term debt	(12	) —	—	(12 )

<sup>1</sup> For the year ended December 31, 2011, income related to LHFS includes \$271 million from IRLCs, which includes \$217 million related to MSRs recognized upon the sale of loans reported at fair value. For the year ended December 31, 2011, income related to MSRs includes \$7 million of MSRs recognized upon the sale of loans reported at LOCOM.

<sup>2</sup> Changes in fair value for the year ended December 31, 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 (Continued)

Fair Value Gain/(Loss) for the Year Ended  
December 31, 2010, for Items Measured at Fair Value  
Pursuant to Election of the FVO

(Dollars in millions)	Trading income	Mortgage Production Related Income/(Loss) <sup>1</sup>	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current- Period Earnings <sup>2</sup>
<b>Assets</b>				
Trading loans	(\$3 )	\$—	\$—	(\$3 )
LHFS	26	568	—	594
LHFI	—	7	—	7
MSRs	—	15	(513 )	(498 )
<b>Liabilities</b>				
Brokered time deposits	(62 )	—	—	(62 )
Long-term debt	(168 )	—	—	(168 )

<sup>1</sup> For the year ended December 31, 2010, income related to LHFS includes \$392 million from IRLCs, which includes \$274 million related to MSRs recognized upon the sale of loans reported at fair value. For the year ended December 31, 2010, income related to MSRs includes \$15 million of MSRs recognized upon the sale of loans reported at LOCOM.

<sup>2</sup> Changes in fair value for the year ended December 31, 2010, exclude accrued interest for the periods 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.

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 based on 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 December 31, 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

## Notes to Consolidated Financial Statements (Continued)

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 2006 and 2007 vintage residential mortgages; including both prime jumbo fixed rate collateral and floating rate collateral. At the time of purchase or origination, these securities had high investment grade ratings, however, through the credit crisis, they have experienced a deterioration in credit quality leading to downgrades to non-investment grade levels. Generally, the Company obtains pricing for its securities from an independent pricing service. 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. Even though 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 relies 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.

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 5, "Securities Available for Sale," for details regarding assumptions used to assess impairment and impairment amounts recognized through earnings on private MBS.

**CDO/CLO Securities**

Level 2 securities AFS at December 31, 2011 consisted of a senior interest in third party CLOs for which independent broker pricing based on market trades and/or from new issuance of similar assets was 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 pricing 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 10, "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, trading ARS are classified 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 primarily include bonds that are redeemable

Notes to Consolidated Financial Statements (Continued)

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 this CP 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 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 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 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 16, "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.

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

During the year ended December 31, 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 was 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 16, "Derivative Financial Instruments," for additional information on the Company's derivative contracts.

176

---

## Notes to Consolidated Financial Statements (Continued)

## Trading loans

The Company engages in certain businesses whereby the election to carry loans at fair value for financial reporting aligns with the underlying business purpose. 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 10, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 16, "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 segment. All of these loans are classified as level 2, due to the market data that the Company uses in the estimate 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 December 31, 2012 and 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 there is sufficient observable trading activity upon which to base the estimate 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 since they are actively traded. The Company is able to obtain fair value estimates for substantially all of these loans through a third party valuation service that is broadly used by market participants. While most of the loans are traded in the market, 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 December 31, 2012 and 2011, \$357 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 values certain newly-originated mortgage LHFS predominantly at fair value 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. Origination fees and costs are recognized in earnings when earned or incurred. The servicing value 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 income/(loss).

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 previously classified these LHFS as level 3. Due to increased trading activity in the secondary loan market, where the Company has been a market participant, the Company has been able to obtain observable pricing and therefore, the Company reclassified these LHFS as level 2. As disclosed 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 considers 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 year ended December 31, 2012, the Company recognized gains in the Consolidated Statements of Income of \$12 million, due to changes in fair value attributable to borrower-specific credit risk. For the years ended December 31, 2011 and 2010, the Company recognized losses in the Consolidated Statements of Income of \$15 million and \$18 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. In addition to borrower-specific credit risk, there

## Notes to Consolidated Financial Statements (Continued)

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 10, "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. For the years ended December 31, 2012, 2011, and 2010, the Company recognized in the Consolidated Statements of Income gains of \$10 million, losses of \$4 million, and gains of \$21 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. The Company obtains 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 are 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 includes 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 9, "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.

**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 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 increases. 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 years ended December 31, 2012 and 2011, the Company transferred \$882 million and \$271 million, respectively, of IRLCs out of level 3 as the associated loans were closed.

## Edgar Filing: - Form

The Company is exposed to interest rate risk associated with MSRs, IRLCs, residential LHFS, and residential 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

178

---

Notes to Consolidated Financial Statements (Continued)

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 is classified as a level 3 instrument. See Note 17, "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 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 \$15 million, gains of \$2 million, and losses of \$41 million for the years ended December 31, 2012, 2011, and 2010, 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 is 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 \$78 million, gains of \$57 million, and losses of \$95 million for the years ended December 31, 2012, 2011, and 2010, respectively.

The Company also carries approximately \$286 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 classified these securities as level 2, as the primary driver of their fair values are the loans owned by the CLO, which the Company 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 (Continued)

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

(Dollars in millions)	Level 3 Significant Unobservable Input Assumptions			Range (weighted average)
	Fair value December 31, 2012	Valuation Technique	Unobservable Input <sup>1</sup>	
Assets:				
Trading assets:				
CDO/CLO securities	\$52	Matrix pricing	Indicative pricing based on overcollateralization ratio	\$33-\$45 (\$40)
			Estimated collateral losses	34-45% (39%)
ABS	5	Matrix pricing	Indicative pricing	\$45 (\$45)
Corporate and other debt securities	1	Third party pricing	N/A	
Securities AFS:				
U.S. states and political subdivisions	46	Matrix pricing	Indicative pricing	\$72-\$115 (\$92)
MBS - private	209	Third party pricing	N/A	
ABS	21	Third party pricing	N/A	
Corporate and other debt securities	5	Cost	N/A	
Other equity securities	633	Cost	N/A	
			Option adjusted spread	0-622 bps (251 bps)
Residential LHFS	8	Monte Carlo/Discounted cash flow	Conditional prepayment rate	5-30 CPR (15 CPR)
			Conditional default rate	0-20 CDR (3.5 CDR)
			Option adjusted spread	0-622 bps (251 bps)
LHFI	369	Monte Carlo/Discounted cash flow	Conditional prepayment rate	5-30 CPR (15 CPR)
			Conditional default rate	0-20 CDR (3.5 CDR)
	10	Collateral based pricing	Appraised value	NM <sup>2</sup>
MSRs	899	Discounted cash flow	Conditional prepayment rate	6-31 CPR (16 CPR)
			Discount rate	9-28% (11%)
			Pull through rate	9-98% (71%)
Other assets/(liabilities), net <sup>3</sup>	132	Internal model	MSR value	6-244 bps (104 bps)
	(24 )	Internal model	Loan production volume	0-150% (92%)
	(7 )	Internal model	Revenue run rate	NM <sup>2</sup>

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

<sup>2</sup> Not meaningful.

<sup>3</sup> Input assumptions relate to the Company's IRLCs and the contingent consideration obligations related to acquisitions. Refer to Note 17, "Reinsurance Arrangements and Guarantees," for additional information.

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 9, "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 years ended December 31, 2012 and 2011.

180

---

## Notes to Consolidated Financial Statements (Continued)

Fair Value Measurements Using Significant Unobservable Inputs											
(Dollars in millions)	Beginning balance January 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 December 31, 2012	Included in earnings (held at December 31, 2012) <sup>1</sup>
<b>Assets</b>											
<b>Trading assets:</b>											
CDO/CLO securities	\$43	\$11	\$—	\$—	\$—	(\$2 )	\$—	\$—	\$—	\$52	\$9
ABS	5	—	—	—	—	—	—	—	—	5	—
Corporate and other debt securities	1	—	—	—	—	—	—	—	—	1	—
Total trading assets	49	11	<sup>2</sup> —	—	—	(2 )	—	—	—	58	9 <sup>2</sup>
<b>Securities AFS:</b>											
<b>U.S. states and political subdivisions</b>											
MBS - private	221	(7 )	35	—	—	(40 )	—	—	—	209	(7 )
ABS	16	—	7	—	—	(2 )	—	—	—	21	—
Corporate and other debt securities	5	—	—	2	—	(2 )	—	—	—	5	—
Other equity securities	741	—	—	164	—	(272 )	—	—	—	633	—
Total securities AFS	1,041	(7 )	<sup>3</sup> 42	166	—	(328 )	—	—	—	914	(7 ) <sup>3</sup>
<b>LHFS:</b>											
Residential loans	1	—	—	—	(11 )	—	4	22	(8 )	8	(1 )
LHFI	433	7	<sup>4</sup> —	—	—	(49 )	(15 )	4	(1 )	379	11 <sup>4</sup>
Other assets/(liabilities), net	62	926	<sup>5</sup> —	(31 )	—	26	(882 )	—	—	101	—
<b>Liabilities</b>											
Derivative contracts	(189 )	(304 )	<sup>3</sup> 194 <sup>6</sup>	—	—	299	—	—	—	—	—

<sup>1</sup> Change in unrealized gains/(losses) included in earnings during the period related to financial assets still held at December 31, 2012.

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

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

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

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

<sup>6</sup> Amount recorded in OCI was the effective portion of the cash flow hedges related to the Company's probable forecasted sale of its shares of Coke common stock. The Company ceased hedge accounting and terminated the



forward contracts on the Coke Common stock during the third quarter of 2012, as discussed in Note 16, "Derivative Financial Instruments."

## Notes to Consolidated Financial Statements (Continued)

Fair Value Measurements Using Significant Unobservable Inputs											
(Dollars in millions)	Beginning balance, January 1, 2011	Included in earnings	OCI	Purchases	Sales	Settlements	Transfers to/from other sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value December 31, 2011	Included in earnings (held at December 31, 2011) <sup>1</sup>
<b>Assets</b>											
<b>Trading assets:</b>											
CDO/CLO securities	\$53	\$26 <sup>2</sup>	\$—	\$6	(\$21)	(\$1 )	(\$20 )	\$—	\$—	\$43	\$9 <sup>2</sup>
ABS	27	9	—	—	(31 )	—	—	—	—	5	2
Corporate and other debt securities	6	1	—	—	(5 )	(1 )	—	—	—	1	(1 )
Equity securities	123	13	—	—	—	(136 )	—	—	—	—	—
Total trading assets	209	49 <sup>3</sup>	—	6	(57 )	(138 )	(20 )	—	—	49	10 <sup>3</sup>
<b>Securities AFS:</b>											
<b>U.S. states and political subdivisions</b>											
MBS - private	347	(8 )	2	—	—	(71 )	(49 )	—	—	221	(6 )
ABS	20	—	—	—	—	(4 )	—	—	—	16	—
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5	—
Other equity securities	690	—	—	198	—	(147 )	—	—	—	741	—
Total securities AFS	1,136	(7 ) <sup>4</sup>	—	198	(4 )	(233 )	(49 )	—	—	1,041	(6 ) <sup>4</sup>
<b>LHFS:</b>											
Residential loans	2	(1 ) <sup>5</sup>	—	—	(18 )	(1 )	(1 )	23	(3 )	1	—
Corporate and other loans	5	(1 ) <sup>6</sup>	—	—	—	(4 )	—	—	—	—	—
LHFI	492	14 <sup>7</sup>	—	—	—	(59 )	(13 )	—	(1 )	433	(1 ) <sup>7</sup>
Other assets/(liabilities), net	(24 )	349 <sup>5</sup>	—	—	—	8	(271 )	—	—	62	—
<b>Liabilities</b>											
Derivative contracts	(145 ) <sup>2</sup>	— <sup>3</sup>	(46) <sup>8</sup>	—	—	—	—	—	—	(189 )	2 <sup>3</sup>

<sup>1</sup> Change in unrealized gains/(losses) included in earnings for the period related to financial assets still held at December 31, 2011.

<sup>2</sup> Amounts included in earnings do not include losses accrued as a result of the ARS settlements discussed in Note 19, "Contingencies."

<sup>3</sup> Amounts included in earnings are recorded in trading income.

<sup>4</sup> Amounts included in earnings are recorded in net securities gains.

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

<sup>6</sup> Amounts included in earnings are recorded in other noninterest income.

<sup>7</sup> Amounts are generally included in mortgage production related income/(loss); however, the mark on certain fair value loans is included in trading income.

<sup>8</sup> Amount recorded in OCI is the effective portion of the cash flow hedges related to the Company's probable forecasted sale of its shares of Coke common stock as discussed in Note 16, "Derivative Financial Instruments."

## Notes to Consolidated Financial Statements (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)	December 31, 2012	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Gains/(Losses) for the Year Ended December 31, 2012
LHFS	\$65	\$—	\$65	\$—	\$—
LHFI	308	—	—	308	(79 )
OREO	264	—	205	59	(48 )
Affordable Housing	82	—	—	82	(96 )
Other Assets	65	—	42	23	(13 )

(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)	Gains/(Losses) for the Year Ended December 31, 2011
LHFS	\$212	\$—	\$108	\$104	\$—
LHFI	72	—	—	72	—
OREO	479	—	372	107	(9 )
Affordable Housing	324	—	—	324	(10 )
Other Assets	45	—	24	21	(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 December 31, 2012, level 2 LHFS consisted primarily of agency and non-agency residential mortgages, which were measured using observable collateral valuations, and corporate loans that are accounted for at LOCOM. 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. Because the Company has been a participant in selling non-agency residential mortgages in the market and there has been increased trading activity, the Company has classified these loans as level 2 as of December 31, 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 2012, the Company transferred \$700 million of residential mortgage NPLs to LHFS, as the Company elected 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 \$199 million charge-off to reflect the loans' estimated market value. Of these transferred NPL loans, \$486 million were sold at approximately their carrying value during the year, \$6 million remain in LHFS, \$7 million were returned to LHFI as they were no longer deemed marketable for sale, and \$2 million were removed as a

result of various loss mitigation events.

During 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 2011; the remaining \$13 million were returned to LHFI as they were no longer deemed marketable for sale.

183

---

## Notes to Consolidated Financial Statements (Continued)

## Loans Held for Investment

LHFI consists predominantly of residential real estate loans discharged in Chapter 7 bankruptcy that have not been reaffirmed by the borrower. As these loans have been classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment and these loans were charged down by \$79 million in 2012 to the estimated fair value of the underlying collateral, incorporating market data when available. LHFI also includes nonperforming commercial real estate loans for which specific reserves have been recorded. Due to the lack of market data for similar assets, all of these loans are considered level 3.

## 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 50% with a weighted average of 22%. The range of discount percentages applied to commercial properties was 10% to 35% with a weighted average of 23%. 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 properties for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recorded when the carrying amount of the property exceeds its fair value. Fair value measurements for affordable housing properties 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 2012, the Company decided to dispose of certain consolidated affordable housing properties, and accordingly, recorded an impairment charge to adjust the carrying values 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 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 consolidated affordable housing properties. One of these consolidated affordable housing properties was sold as of December 31, 2012 at an immaterial gain. During 2011, the Company recognized impairment charges of \$10 million on its consolidated affordable housing properties.

## 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 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 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 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. During 2012 and

## Notes to Consolidated Financial Statements (Continued)

2011, the Company recognized impairment charges of \$2 million and \$5 million, respectively, attributable to the fair value of various personal property under operating leases.

Land held for sale is measured at the lesser of carrying value or 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 2012, the Company recognized a \$7 million impairment charge on the land. No impairment charges were recognized during 2011.

## Fair Value of Financial Instruments

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

(Dollars in millions)	December 31, 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	\$8,257	\$8,257	\$8,257	\$—	\$—	(a)
Trading assets	6,049	6,049	394	5,597	58	(b)
Securities AFS	21,953	21,953	291	20,748	914	(b)
LHFS	3,399	3,399	—	3,375	24	(c)
LHFI, net	119,296	115,690	—	4,041	111,649	(d)
Financial liabilities						
Consumer and commercial deposits	\$130,180	\$130,449	\$—	\$130,449	\$—	(e)
Brokered time deposits	2,136	2,164	—	2,164	—	(f)
Short-term borrowings	5,494	5,494	—	5,494	—	(f)
Long-term debt	9,357	9,413	—	8,829	584	(f)
Trading liabilities	1,161	1,161	591	570	—	(b)
(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)



Edgar Filing: - Form

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

- (a) Cash and cash equivalents are valued at their carrying amounts reported in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. Securities AFS, trading assets, and trading liabilities that are classified as level 1 are valued based on quoted market prices. For those instruments classified as level 2 or 3, refer to the respective valuation discussions within this footnote.
- (b) 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
- (c)

185

---

## Notes to Consolidated Financial Statements (Continued)

the market, instruments are valued based on the best available data to approximate fair value. This data may be internally-developed and considers risk premiums that a market participant would require under then-current market conditions.

LHFI fair values are based on a hypothetical exit price, which does not represent the estimated intrinsic value of the loan if held for investment. The assumptions used are expected to approximate those that a market participant purchasing the loans would use to value the loans, including a market risk premium and liquidity discount.

Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid, or for certain loan (d) types, non-existent, requires significant judgment. Therefore, the estimated fair value can vary significantly depending on a market participant's ultimate considerations and assumptions. The final value yields a market participant's expected return on investment that is indicative of the current market conditions, but it does not take into consideration the Company's estimated value from continuing to hold these loans or its lack of willingness to transact at these estimated values.

The Company generally estimated fair value for 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 December 31, 2012 and 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 December 31, 2012 and 2011, respectively. The discounted value is a function of a market participant's required yield in the current environment and is not a reflection of the expected cumulative losses on the loans. Loan prepayments are used to adjust future cash flows based on historical experience and prepayment model forecasts. The value of related accrued interest on loans approximates fair value; however, it is not included in the carrying amount or fair value of loans. The value of long-term customer relationships is not permitted under current U.S. GAAP to be included in the estimated fair value.

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

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

Unfunded loan commitments and letters of credit are not included in the table above. At December 31, 2012, the Company had \$42.7 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 \$49 million at December 31, 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 19 – 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.

Notes to Consolidated Financial Statements (Continued)

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 December 31, 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 17, "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 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 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

Notes to Consolidated Financial Statements (Continued)

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, which also was denied.

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, but this appeal was dismissed based on a finding that leave to appeal was improvidently granted. The parties now are conducting discovery in anticipation of a motion for class certification.

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 suit in the Eastern District of Virginia in July of 2009 against United Guaranty Residential Insurance Company of North Carolina ("UGRIC") seeking payment of denied mortgage insurance claims on second lien mortgages. STM's claims were in two counts. Count One involved a common reason for denial of claims by UGRIC for a group of loans. Count Two involved a group of loans with individualized reasons for the claim denials asserted by UGRIC. UGRIC counterclaimed for declaratory relief involving interpretation of the insurance policy involving certain caps on the amount of claims covered, and whether STM was obligated to continue to pay premiums after any caps were met. 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. The Court stayed Count Two pending final resolution of Count One. On September 13, 2011, the Court awarded an additional \$5 million to the Count One judgment 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.

On February 1, 2013, the Fourth Circuit Court of Appeals (i) upheld the judgment to STM of \$45 million (\$34 million in claims, \$6 million in interest and \$5 million in additional fees); and (ii) vacated the ruling in STM's favor regarding the defense STM asserted to UGRIC's claim that STM owes continued premium after the limits of liability on the insurance are reached. STM expects that further proceedings in the District Court will be conducted regarding STM's defense to UGRIC's claims for additional premiums. On February 15, 2013, UGRIC filed a motion asking the U.S. Fourth Circuit Court of Appeals to re-hear its appeal.

*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 remained pending following the class settlement. After motions to dismiss in these cases, a few individual actions have survived and will move forward into discovery.

#### 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

## Notes to Consolidated Financial Statements (Continued)

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 mismanagement of, and misrepresentations 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. A new committee conducted a new investigation of the allegations raised in the lawsuit and 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, which concluded that these allegations had no merit. On October 29, 2012, the Court dismissed all claims in the Benfield case. This decision is on appeal. The Court stayed the Mannato case, initially pending the outcome of a similar case and then upon the death of the plaintiff. 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 ordered Plaintiffs to file an amended complaint. This amended complaint was filed and the defendants filed a motion to dismiss.

#### 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. During the fourth quarter of 2012, the Company engaged 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 complete its review and report to the Federal Reserve in the first half of 2013. The Company also 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. Under the terms of the Consent Order, SunTrust Bank and STM also retained 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. Through the fourth quarter of 2012, the Company continued to incur the costs associated with the Consent Order-

## Notes to Consolidated Financial Statements (Continued)

required foreclosure file review. However, on January 7, 2013, the Company, as well as nine other mortgage servicers, entered into an agreement with the OCC and the Federal Reserve to end the independent foreclosure review process and accelerate remediation of loans included in the review. Pursuant to the agreement, the Company will make a cash payment of \$63 million (which has been accrued in the Company's financial results) to fund lump-sum payments to borrowers who faced a foreclosure action on their primary residence between January 1, 2009 and December 31, 2010, and commit \$100 million to affect loss mitigation or other foreclosure prevention actions. Lump-sum payments to borrowers will be administered by an independent agent approved by the Federal Reserve. The amount of payment to a borrower will be determined pursuant to a Financial Remediation Framework jointly established by the OCC and the Federal Reserve based on circumstances surrounding the foreclosure activity. OCC and Federal Reserve Financial Remediation Framework guidance released in June 2012 provides that 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 agreement, the Company will no longer be required to incur the consulting and legal costs of the independent third parties providing file review, borrower outreach, and legal services associated with the Consent Order foreclosure file review. 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. 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 has reached a settlement 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 Company had previously accrued the full amount of the confidential settlement that was reached.

#### Putative ERISA Class Actions

##### Company Stock Class Action

Beginning in July 2008, the Company and certain officers, directors, and employees of the Company 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 and certain officers, directors, and employees of the Company 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. This action was 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.

Notes to Consolidated Financial Statements (Continued)

On March 12, 2012, the Court granted in part and denied in part the motion to dismiss. The Company filed a subsequent motion to dismiss the remainder of the case on the ground that the Court lacked subject matter jurisdiction over the remaining claims. On October 30, 2012, the Court dismissed all claims in this action. Immediately thereafter, plaintiffs' counsel initiated a substantially similar lawsuit against the Company substituting two new plaintiffs. SunTrust intends to file a motion to dismiss in this action.

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 certiorari in Edwards and, as a result, the stays in these cases were lifted. The plaintiffs in Acosta voluntarily dismissed this case. A motion to dismiss is pending in the Thurmond case.

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 continuing, the Company has not reached any agreement with such parties. The Company has estimated 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, and accrued this expense in its 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. SunTrust Mortgage and the relators have reached an agreement to settle this dispute that is awaiting bankruptcy court approval.

HUD Investigation

Edgar Filing: - Form

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 continues to cooperate with the investigation.

191

---

Notes to Consolidated Financial Statements (Continued)

NOTE 20 - BUSINESS SEGMENT REPORTING

The Company has three 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 evaluated by management. The segment structure was revised during the first quarter of 2012 from the six segments the Company utilized during 2011. The revised segment structure was in conjunction with organizational changes made throughout the Company that were announced during the fourth quarter of 2011 and implemented in the first quarter of 2012. The following is a description of the new segments and their composition.

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

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

Private Wealth Management 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, IIS, and GenSpring. 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. 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.

The Wholesale Banking segment includes the following five businesses:

CIB offers a wide array of traditional banking products (lending and treasury management services) and investment banking services. CIB serves clients in the larger corporate and commercial middle markets. The Investment 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 Corporate Banking 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.

Commercial & Business Banking (formerly named 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), and not-for-profit and government entities.

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. Equipment lease financing solutions (through SunTrust Equipment Finance & Leasing) as well as corporate

insurance premium financing (through Premium Assignment Corporation) are also managed within this business.

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.

Treasury & Payment Solutions provides all SunTrust business clients with services required to manage their payments and receipts combined with 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, plus provides clients the means to manage their accounts electronically online both domestically and internationally.

## Notes to Consolidated Financial Statements (Continued)

Mortgage Banking offers residential mortgage products nationally through its retail, broker, and correspondent channels, as well as via the internet ([www.suntrust.com](http://www.suntrust.com)) and by telephone (1-800-SUNTRUST). These products are either sold in the secondary market, primarily with servicing rights retained, or held in the Company's loan portfolio. Mortgage Banking services loans for itself and for other investors and 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. Additionally, it includes Enterprise Information Services, which is the primary information technology and operations group; Corporate Real Estate, 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 to make tax-exempt assets 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 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 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.





Edgar Filing: - Form

Notes to Consolidated Financial Statements (Continued)

(Dollars in millions)	Year Ended December 31, 2012					
	Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Average total assets	\$46,126	\$64,499	\$35,154	\$28,011	\$2,344	\$176,134
Average total liabilities	77,539	54,069	4,484	19,710	(163)	155,639
Average total equity	—	—	—	—	20,495	20,495
Net interest income	\$2,534	\$1,753	\$512	\$387	(\$84)	\$5,102
FTE adjustment	—	119	—	4	—	123
Net interest income - FTE <sup>1</sup>	2,534	1,872	512	391	(84)	5,225
Provision for credit losses <sup>2</sup>	596	315	770	—	(286)	1,395
Net interest income/(loss) after provision for credit losses	1,938	1,557	(258)	391	202	3,830
Total noninterest income	1,369	1,543	502	1,970	(11)	5,373
Total noninterest expense	2,930	1,964	1,379	61	(11)	6,323
Income/(loss) before provision/(benefit) for income taxes	377	1,136	(1,135)	2,300	202	2,880
Provision/(benefit) for income taxes <sup>3</sup>	140	331	(433)	770	88	896
Net income/(loss) including income attributable to noncontrolling interest	237	805	(702)	1,530	114	1,984
Net income attributable to noncontrolling interest	—	16	—	10	—	26
Net income/(loss)	\$237	\$789	(\$702)	\$1,520	\$114	\$1,958

(Dollars in millions)	Year Ended December 31, 2011					
	Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Average total assets	\$43,901	\$62,155	\$33,719	\$31,363	\$1,302	\$172,440
Average total liabilities	77,352	55,157	3,838	15,605	(208)	151,744
Average total equity	—	—	—	—	20,696	20,696
Net interest income	\$2,502	\$1,640	\$471	\$496	(\$44)	\$5,065
FTE adjustment	—	107	—	6	1	114
Net interest income - FTE <sup>1</sup>	2,502	1,747	471	502	(43)	5,179
Provision for credit losses <sup>2</sup>	722	625	693	—	(527)	1,513
Net interest income/(loss) after provision for credit losses	1,780	1,122	(222)	502	484	3,666
Total noninterest income	1,507	1,402	241	297	(26)	3,421
Total noninterest expense	2,903	2,056	1,197	106	(28)	6,234
Income/(loss) before provision/(benefit) for income taxes	384	468	(1,178)	693	486	853
Provision/(benefit) for income taxes <sup>3</sup>	141	81	(457)	237	191	193
	243	387	(721)	456	295	660

Edgar Filing: - Form

Net income/(loss) including income attributable to noncontrolling interest						
Net income attributable to noncontrolling interest	—	3	—	9	1	13
Net income/(loss)	\$243	\$384	(\$721 )	\$447	\$294	\$647

194

---

## Notes to Consolidated Financial Statements (Continued)

(Dollars in millions)	Year Ended December 31, 2010					Consolidated
	Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	
Average total assets	\$41,910	\$62,268	\$34,792	\$32,581	\$824	\$172,375
Average total liabilities	74,914	51,925	4,030	18,775	(103)	) 149,541
Average total equity	—	—	—	—	22,834	22,834
Net interest income	\$2,449	\$1,475	\$438	\$456	\$36	\$4,854
FTE adjustment	—	106	—	10	—	116
Net interest income - FTE <sup>1</sup>	2,449	1,581	438	466	36	4,970
Provision for credit losses <sup>2</sup>	891	777	1,187	—	(204)	) 2,651
Net interest income/(loss) after provision for credit losses	1,558	804	(749)	) 466	240	2,319
Total noninterest income	1,539	1,442	521	257	(30)	) 3,729
Total noninterest expense	2,917	1,941	1,081	2	(30)	) 5,911
Income/(loss) before provision/(benefit) for income taxes	180	305	(1,309)	) 721	240	137
Provision/(benefit) for income taxes <sup>3</sup>	65	17	(498)	) 247	100	(69)
Net income/(loss) including income attributable to noncontrolling interest	115	288	(811)	) 474	140	206
Net income attributable to noncontrolling interest	—	8	1	9	(1)	) 17
Net income/(loss)	\$115	\$280	(\$812)	) \$465	\$141	\$189

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

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

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

## Notes to Consolidated Financial Statements (Continued)

## NOTE 21 - ACCUMULATED OTHER COMPREHENSIVE INCOME

AOCI was calculated as follows:

(Dollars in millions)	Pre-tax Amount	Income Tax (Expense) Benefit	After-tax Amount
AOCI, January 1, 2010	\$1,661	(\$591 )	\$1,070
Unrealized net gain on securities	770	(283 )	487
Unrealized net gain on derivatives	802	(293 )	509
Change related to employee benefit plans	106	(46 )	60
Reclassification adjustment for realized gains and losses on securities	(191 )	70 )	(121 )
Reclassification adjustment for realized gains and losses on derivatives	(617 )	228 )	(389 )
AOCI, December 31, 2010	2,531	(915 )	1,616
Unrealized net gain on securities	653	(242 )	411
Unrealized net gain on derivatives	684	(253 )	431
Change related to employee benefit plans	(382 )	141 )	(241 )
Reclassification adjustment for realized gains and losses on securities	(117 )	43 )	(74 )
Reclassification adjustment for realized gains and losses on derivatives	(625 )	231 )	(394 )
AOCI, December 31, 2011	2,744	(995 )	1,749
Unrealized net loss on securities	198	(269 )	(71 )
Unrealized net gain on derivatives	141	143	284
Change related to employee benefit plans	(95 )	35 )	(60 )
Reclassification adjustment for realized gains and losses on securities <sup>1</sup>	(2,279 )	1,007 )	(1,272 )
Reclassification adjustment for realized gains and losses on derivatives	(203 )	(118 )	(321 )
AOCI, December 31, 2012	\$506	(\$197 )	\$309

<sup>1</sup>Excludes \$305 million of losses related to derivatives associated with the Coke Agreements termination that was recorded in securities gains on the Consolidated Statement of Income.

## NOTE 22 - OTHER NONINTEREST EXPENSE

Other noninterest expense in the Consolidated Statements of Income includes the following for the year ended December 31:

(Dollars in millions)	2012	2011	2010
Impairment of affordable housing investments	\$96	\$10	\$15
Other staff expense	94	95	55
Postage and delivery	76	81	83
Communications	63	63	64
Operating supplies	34	45	47
Other expense	326	317	344
Total other noninterest expense	\$689	\$611	\$608



## Notes to Consolidated Financial Statements (Continued)

## NOTE 23 - SUNTRUST BANKS, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

## Statements of Income - Parent Company Only

(Dollars in millions)	Year Ended December 31			
	2012	2011	2010	
Income				
Dividends <sup>1</sup>	\$27	\$29	\$28	
Interest on loans	36	11	2	
Trading income	18	53	44	
Other income	23	132	165	
Total income	104	225	239	
Expense				
Interest on short-term borrowings	13	9	9	
Interest on long-term debt	177	226	228	
Employee compensation and benefits <sup>2</sup>	111	(7	) (13	)
Service fees to subsidiaries	3	11	2	
Other expense	43	133	21	
Total expense	347	372	247	
Loss before income tax benefit and equity in undistributed income of subsidiaries	(243	) (147	) (8	)
Income tax benefit	91	49	12	
(Loss)/income before equity in undistributed income of subsidiaries	(152	) (98	) 4	
Equity in undistributed income of subsidiaries	2,110	745	185	
Net income	1,958	647	189	
Preferred dividends	(12	) (7	) (7	)
Dividends and accretion of discount on preferred stock issued to the U.S. Treasury	—	(66	) (267	)
Accelerated accretion associated with repurchase of preferred stock issued to the U.S. Treasury	—	(74	) —	
Dividends and undistributed earnings allocated to unvested shares	(15	) (5	) (2	)
Net income/(loss) available to common shareholders	\$1,931	\$495	(\$87	)

<sup>1</sup> Substantially all dividend income received from subsidiaries.

<sup>2</sup> Includes incentive compensation allocations between Parent Company and subsidiaries.

## Notes to Consolidated Financial Statements (Continued)

## Balance Sheets - Parent Company Only

(Dollars in millions)	As of December 31	
	2012	2011
Assets		
Cash held at SunTrust Bank	\$137	\$220
Interest-bearing deposits held at SunTrust Bank	604	1,402
Interest-bearing deposits held at other banks	20	19
Cash and cash equivalents	761	1,641
Trading assets	103	93
Securities available for sale	279	324
Loans to subsidiaries	2,733	3,666
Investment in capital stock of subsidiaries stated on the basis of the Company's equity in subsidiaries' capital accounts:		
Banking subsidiaries	22,521	21,783
Nonbanking subsidiaries	1,368	1,278
Goodwill	99	99
Other assets	561	397
Total assets	\$28,425	\$29,281
Liabilities and Shareholders' Equity		
Short-term borrowings:		
Subsidiaries	\$1,525	\$392
Non-affiliated companies	1,512	1,710
Long-term debt:		
Subsidiaries	160	160
Non-affiliated companies	3,249	6,294
Other liabilities	1,108	766
Total liabilities	7,554	9,322
Preferred stock	725	275
Common stock	550	550
Additional paid in capital	9,174	9,306
Retained earnings	10,817	8,978
Treasury stock, at cost, and other <sup>1</sup>	(704)	(899)
AOCI, net of tax	309	1,749
Total shareholders' equity	20,871	19,959
Total liabilities and shareholders' equity	\$28,425	\$29,281

<sup>1</sup> At December 31, 2012, includes (\$656) million for treasury stock and (\$48) million for compensation element of restricted stock.

At December 31, 2011, includes (\$851) million for treasury stock and (\$48) million for compensation element of restricted stock.



## Notes to Consolidated Financial Statements (Continued)

## Statements of Cash Flows - Parent Company Only

(Dollars in millions)	Year Ended December 31			
	2012	2011	2010	
Cash Flows from Operating Activities:				
Net income	\$1,958	\$647	\$189	
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:				
Equity in undistributed income of subsidiaries	(2,110	) (745	) (185	)
Depreciation, amortization and accretion	10	17	15	
Deferred income tax provision/(benefit)	18	(56	) (7	)
Excess tax benefits from stock-based compensation	(11	) —	—	
Stock option compensation and amortization of restricted stock compensation	35	44	66	
Net loss/(gain) on extinguishment of debt	15	(3	) 1	
Net securities gains	(6	) (92	) (38	)
Net gain on sale of assets	—	—	(18	)
Contributions to retirement plans	(26	) (8	) (8	)
Net (increase)/decrease in other assets	(190	) (192	) 38	
Net increase in other liabilities	369	130	123	
Net cash provided by/(used in) operating activities	62	(258	) 176	
Cash Flows from Investing Activities:				
Proceeds from maturities, calls, and repayments of securities available for sale	65	61	164	
Proceeds from sales of securities available for sale	47	6,700	7,664	
Purchases of securities available for sale	(68	) (2,374	) (7,737	)
Proceeds from maturities, calls, and repayments of trading securities	2	137	97	
Proceeds from sales of trading securities	—	75	79	
Net change in loans to subsidiaries	940	(3,185	) 221	
Capital contributions to subsidiaries	(150	) (250	) —	
Other, net	—	—	22	
Net cash provided by investing activities	836	1,164	510	
Cash Flows from Financing Activities:				
Net increase in other short-term borrowings	935	463	5	
Proceeds from the issuance of long-term debt	15	1,749	—	
Repayment of long-term debt	(3,073	) (482	) (350	)
Proceeds from the issuance of preferred stock	438	103	—	
Proceeds from the issuance of common stock	—	1,017	—	
Repurchase of preferred stock	—	(4,850	) —	
Proceeds from the exercise of stock options	15	—	—	
Excess tax benefits from stock option compensation	11	—	—	
Dividends paid	(119	) (131	) (259	)
Purchase of outstanding warrants	—	(11	) —	
Net cash used in financing activities	(1,778	) (2,142	) (604	)
Net (decrease)/increase in cash and cash equivalents	(880	) (1,236	) 82	
Cash and cash equivalents at beginning of period	1,641	2,877	2,795	
Cash and cash equivalents at end of period	\$761	\$1,641	\$2,877	
Supplemental Disclosures:				

Edgar Filing: - Form

Income taxes received from/(paid to) subsidiaries	\$621	(\$2	) (\$338	)
Income taxes (paid)/received by Parent Company	(605	) (66	) 406	
Net income taxes received/(paid) by Parent Company	\$16	(\$68	) \$68	
Interest paid	\$189	\$246	\$233	
Accretion of discount for preferred stock issued to the U.S. Treasury	—	80	25	
Noncash capital contribution to subsidiary	—	—	997	

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company conducted an evaluation, under the supervision and with the participation of its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2012. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Based upon the evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company's internal control over financial reporting is a process designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management has made a comprehensive review, evaluation, and assessment of the Company's internal control over financial reporting as of December 31, 2012. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2012, the Company's internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements as of and for the year ended December 31, 2012, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. The report of Ernst & Young LLP is included under Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's CEO and CFO, changes in the Company's internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended December 31, 2012. Based upon that evaluation, management has determined that there have been no changes to the Company's internal control over financial reporting that occurred during the Company's fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

Part III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information at the captions “Nominees for Directorship,” “Nominees for Terms Expiring in 2014,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance and Director Independence,” “Shareholder Recommendations and Nominations for Election to the Board,” and “Board Committees” in the Registrant’s definitive proxy statement for its annual meeting of shareholders to be held on April 23, 2013 and to be filed with the Commission is incorporated by reference into this Item 10.

Item 11. EXECUTIVE COMPENSATION.

The information at the captions “Compensation Policies that Affect Risk Management,” “Executive Compensation” (“Compensation Discussion and Analysis,” “Compensation Committee Report,” “2012 Summary Compensation Table,” “2012 Grants of Plan-Based Awards,” “Option Exercises and Stock Vested in 2012,” “Outstanding Equity Awards at December 31, 2012,” “2012 Pension Benefits Table,” “2012 Nonqualified Deferred Compensation Table,” and “2012 Potential Payments Upon Termination or Change in Control”), “2012 Director Compensation,” and “Compensation Committee Interlocks and Insider Participation” in the Registrant’s definitive proxy statement for its annual meeting of shareholders to be held on April 23, 2013 and to be filed with the Commission is incorporated by reference into this Item 11.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information at the captions “Equity Compensation Plans,” “Stock Ownership of Certain Persons,” “Stock Ownership of Directors, Nominee and Management,” and “Stock Ownership of Principal Shareholders” in the Registrant’s definitive proxy statement for its annual meeting of shareholders to be held on April 23, 2013 and to be filed with the Commission is incorporated by reference into this Item 12.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information at the captions “Policies and Procedures for Approval of Related Party Transactions,” “Transactions with Related Persons, Promoters, and Certain Control Persons,” and “Corporate Governance and Director Independence” in the Registrant’s definitive proxy statement for its annual meeting of shareholders to be held on April 23, 2013 and to be filed with the Commission is incorporated by reference into this Item 13.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information at the captions “Audit Fees and Related Matters,” “Audit and Non-Audit Fees,” and “Audit Committee Policy for Pre-approval of Independent Auditor Services” in the Registrant’s definitive proxy statement for its annual meeting of shareholders to be held on April 23, 2013 and to be filed with the Commission is incorporated by reference into this Item 14.

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a)(1) Financial Statements of SunTrust Banks, Inc. included in this report:  
Consolidated Statements of Income for the year ended December 31, 2012, 2011, and 2010;  
Consolidated Statements of Comprehensive Income for the year ended December 31, 2012, 2011, and 2010;  
Consolidated Balance Sheets as of December 31, 2012, and 2011;  
Consolidated Statements of Shareholders’ Equity as of December 31, 2012, 2011, and 2010; and  
Consolidated Statements of Cash Flows for the year ended December 31, 2012, 2011, and 2010.
- (a)(2) Financial Statement Schedules

Edgar Filing: - Form

All financial statement schedules for the Company have been included in the Consolidated Financial Statements or the related footnotes, or are either inapplicable or not required.

(a)(3) Exhibits

201

---

Edgar Filing: - Form

The following documents are filed as part of this report:

Exhibit	Description	
3.1	Amended and Restated Articles of Incorporation of the Registrant, restated effective January 16, 2009, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed January 22, 2009, as further amended by Articles of Amendment dated December 19, 2012, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed December 20, 2012.	*
3.2	Bylaws of the Registrant, as amended and restated on August 8, 2011, incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011.	*
4.1	Indenture between Registrant and PNC, N.A., as Trustee, incorporated by reference to Exhibit 4(a) to Registration Statement No. 33-62162.	*
4.2	Indenture between Registrant and The First National Bank of Chicago, as Trustee, incorporated by reference to Exhibit 4(b) to Registration Statement No. 33-62162.	*
4.3	Form of Indenture to be used in connection with the issuance of Subordinated Debt Securities, incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-25381.	*
4.4	Second Supplemental Indenture by and among National Commerce Financial Corporation, SunTrust Banks, Inc. and The Bank of New York, as Trustee, dated September 22, 2004, incorporated by reference to Exhibit 4.9 to Registrant's 2004 Annual Report on Form 10-K.	*
4.5	First Supplemental Indenture between National Commerce Financial Corporation and the Bank of New York, as Trustee, dated as of March 27, 1997, incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-4 of National Commerce Bancorporation (File No. 333-29251).	*
4.6	Indenture between National Commerce Financial Corporation and The Bank of New York, as Trustee, dated as of March 27, 1997, incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of National Commerce Bancorporation (File No. 333-29251).	*
4.7	Indenture, dated as of October 25, 2006, between SunTrust Banks, Inc. and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form 8-A filed on December 5, 2006.	*
4.8	Form of First Supplemental Indenture (to Indenture dated as of October 25, 2006) between SunTrust Banks, Inc. and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form 8-A filed on October 24, 2006.	*
4.9	Form of Second Supplemental Indenture (to Indenture dated as of October 25, 2006) between SunTrust Banks, Inc. and U.S. Bank National Association, as Trustee,	*

Edgar Filing: - Form

incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A filed on December 5, 2006.

- 4.10 Senior Indenture dated as of September 10, 2007 by and between SunTrust Banks, Inc. and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on September 10, 2007. \*
- 4.11 Form of Third Supplemental Indenture to the Junior Subordinated Notes Indenture between SunTrust Banks, Inc. and U.S. Bank National Association, as Trustee, incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A filed on March 3, 2008. \*
- 4.12 Warrant Agreement dated September 22, 2011, among SunTrust Banks, Inc., Computershare Inc. and Computershare Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A filed September 23, 2011. \*
- 4.13 Warrant Agreement dated September 22, 2011, among SunTrust Banks, Inc., Computershare Inc. and Computershare Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A filed September 23, 2011. \*
- 4.14 Form of Series A Preferred Stock Certificate, incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed September 12, 2006. \*

202

---

Edgar Filing: - Form

Exhibit	Description	
4.15	Form of Series E Preferred Stock Certificate, incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K filed December 20, 2012.	*
10.1	SunTrust Banks, Inc. Annual Incentive Plan (formerly Management Incentive Plan), amended and restated as of January 1, 2012, incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.2	SunTrust Banks, Inc. 2009 Stock Plan, amended and restated as of January 1, 2011, incorporated by reference to Appendix A to the Company's definitive proxy statement filed March 8, 2011, together with (i) Form of Nonqualified Stock Option Agreement; (ii) Form of Performance-Vested Stock Option Agreement; (iii) Form of Pro-Rata Nonqualified Stock Option Award Agreement; (iv) Form of Restricted Stock Agreement (3-year cliff vesting); (v) Form of Restricted Stock Agreement (3-year ratable vesting); (vi) Form of Performance Stock Agreement; (vii) Form of CCP Long Term Restricted Stock Award Agreement; (viii) Form of Performance Stock Unit Agreement; (ix) Form of TSR Performance-Vested Restricted Stock Unit Award Agreement; (x) Form of Tier 1 Capital Performance-Vested Restricted Stock Unit Award Agreement; (xi) Form of (2010) Salary Share Stock Unit Award Agreement; (xii) Form of (2011) SunTrust Banks, Inc. Salary Share Stock Unit Agreement; (xiii) Form of Non-Employee Director Restricted Stock Award Agreement; (xiv) Form of Non-Employee Director Restricted Stock Unit Award Agreement; (xv) Form of Co-investment Restricted Stock Unit Award Agreement with clawback under the SunTrust Banks, Inc. 2009 Stock Plan; (xvi) Form of Performance Vested (ROA) Restricted Stock Unit Award Agreement with clawback under the SunTrust Banks, Inc. 2009 Stock Plan; (xvii) Form of Performance Vested (TSR) Restricted Stock Unit Award Agreement with clawback under the SunTrust Banks, Inc. 2009 Stock Plan; (xviii) Form of Nonqualified Stock Option Award Agreement with clawback under the SunTrust Banks, Inc. 2009 Stock Plan; (xix) Form of Time Vested Restricted Stock Award Agreement with clawback under the SunTrust Banks, Inc. 2009 Stock Plan; and (xx) Form of 2012 Non-Qualified Stock Option Award Agreement (2-year cliff vested) under the SunTrust Banks, Inc. 2009 Stock Plan; incorporated by reference to (i) Exhibit 10.1.1 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (ii) Exhibit 10.1.2 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (iii) Exhibit 10.3 of the Company's Current Report on Form 8-K filed April 4, 2011; (iv) Exhibit 10.1.4 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (v) Exhibit 10.1.3 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (vi) Exhibit 10.1.6 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (vii) Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed November 5, 2010; (viii) Exhibit 10.1.7 to the Company's Registration Statement No. 333-158866 on Form S-8 filed April 28, 2009; (ix) Exhibit 10.1 of the Company's Current Report on Form 8-K/A filed April 27, 2011; (x) Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 4, 2011; (xi) Exhibit 10.2 of the Company's Current Report on Form 8-K/A filed January 13, 2010; (xii) Exhibit 10.5 of the Company's Current Report on Form 8-K filed January 6, 2011; (xiii) Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 27, 2011; (xiv) Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 27,	*



Edgar Filing: - Form

2011; (xv) to (xix) Exhibits 10.26 to 10.30 to the Company's Annual Report on Form 10-K filed February 24, 2012; and (xx) Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 1, 2012.

10.3 SunTrust Banks, Inc. 2004 Stock Plan effective April 20, 2004, as amended and restated February 12, 2008, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 15, 2008, as further amended effective January 1, 2009, incorporated by reference to Exhibit 10.14 to the Registrant's Current Report on Form 8-K filed January 7, 2009, together with (i) Form of Non-Qualified Stock Option Agreement, (ii) Form of Restricted Stock Agreement, (iii) Form of Director Restricted Stock Agreement, and (iv) Form of Director Restricted Stock Unit Agreement, incorporated by reference to (i) Exhibit 10.70 of the Registrant's Quarterly Report on Form 10-Q filed May 8, 2006, (ii) Exhibit 10.71 of the Registrant's Quarterly Report on Form 10-Q filed May 8, 2006, (iii) Exhibit 10.72 of the Registrant's Quarterly Report on Form 10-Q filed May 8, 2006, and (iv) Exhibit 10.74 of the Registrant's Quarterly Report on Form 10-Q filed May 8, 2006. \*

10.4 SunTrust Banks, Inc. 2000 Stock Plan, effective February 8, 2000, and amendments effective January 1, 2005, November 14, 2006, and January 1, 2009, incorporated by reference to Exhibit A to Registrant's 2000 Proxy Statement on Form 14A (File No. 001-08918), to Exhibits 10.1 and 10.2 to the Registrant's Current Report on Form 8-K filed February 16, 2007, and to Exhibit 10.12 to the Registrant's Current Report on Form 8-K filed January 7, 2009. \*

203

---

Edgar Filing: - Form

Exhibit	Description	
10.5	SunTrust Banks, Inc. 1995 Executive Stock Plan, and amendments effective as of August 11, 1998 and January 1, 2009, incorporated by reference to Exhibit 10.16 to Registrant's 1999 Annual Report on Form 10-K (File No. 001-08918), Exhibit 10.20 to Registrant's 1998 Annual Report on Form 10-K (File No. 001-08918), and to Exhibit 10.12 to the Registrant's Current Report on Form 8-K filed January 7, 2009.	*
10.6	GB&T Bancshares, Inc. Stock Option Plan of 1997, incorporated by reference to Exhibit 10.6 to the annual report on Form 10-K of GB&T Bancshares Inc. filed March 31, 2003 (File No. 005-82430).	*
10.7	GB&T Bancshares, Inc. 2007 Omnibus Long-Term Incentive Plan, incorporated by reference to Appendix A to the definitive proxy statement of GB&T Bancshares Inc. filed April 18, 2007 (File No. 005-82430).	*
10.8	SunTrust Banks, Inc. Performance Stock Agreement, effective February 11, 1992, and amendment effective February 10, 1998, incorporated by reference to Exhibit 10.10 to Registrant's 2003 Annual Report on Form 10-K (File No. 001-08918).	*
10.9	SunTrust Banks, Inc. Supplemental Executive Retirement Plan, amended and restated as of January 1, 2011, incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011, as further amended by Amendment Number One, effective as of January 1, 2012, incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.10	SunTrust Banks, Inc. ERISA Excess Retirement Plan, amended and restated effective as of January 1, 2011, incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011, as further amended by Amendment Number One, effective as of January 1, 2012, incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.11	SunTrust Restoration Plan, amended and restated effective May 31, 2011, incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011, as further amended by Amendment Number One, effective as of January 1, 2012, incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.12	SunTrust Banks, Inc. Deferred Compensation Plan, amended and restated as of January 1, 2011, incorporated by reference to Exhibit 10.12 to Registrant's Current Report on Form 8-K filed January 6, 2011, as further amended by Amendment Number One, effective as of January 1, 2012, incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.13	Crestar Financial Corporation Deferred Compensation Program under Incentive Compensation Plan of Crestar Financial Corporation and Affiliated Corporations, and amendments effective January 1, 1994 and effective September 21, 1995, incorporated by	*

Edgar Filing: - Form

reference to Exhibit 10.30 to Registrant's 2000 Annual Report on Form 10-K (File No. 001-08918) and Exhibit 10.34 to Registrant's 1998 Annual Report on Form 10-K (File No. 001-08918).

- 10.14 Forms of Change in Control Agreements between Registrant and (i) William H. Rogers, Jr., (ii) Aleem Gillani, (iii) Thomas E. Freeman, (iv) Mark A. Chancy, and (v) Anil Cheriyan, incorporated by reference to: (i) - (iii), Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed February 23, 2010; (iv), Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed February 23, 2010; and (v) Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed February 24, 2012. \*
- 10.15 SunTrust Banks, Inc. Deferred Compensation Plan, amended and restated effective as of January 1, 2012, (including amendments through December 31, 2012) incorporated by reference to Exhibits 10.2 and 10.2.1 to the Registrant's Current Report on Form 8-K filed December 27, 2012. \*
- 10.16 Crestar Financial Corporation Deferred Compensation Plan for Outside Directors of Crestar Financial Corporation and Crestar Bank, as restated with amendments through January 1, 2009, incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed March 2, 2009. \*

Edgar Filing: - Form

Exhibit	Description	
10.17	Crestar Financial Corporation Directors' Equity Program, as restated as of December 31, 2008, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed January 7, 2009.	*
10.18	National Commerce Financial Corporation Directors' Fees Deferral Plan and First Amendment, effective January 1, 2002, and amendments effective January 1, 2005 and November 14, 2006, incorporated by reference to Exhibit 10.64 to Registrant's 2004 Annual Report on Form 10-K, and Exhibits 10.1 and 10.2 to the Registrant's Current Report on Form 8-K filed February 16, 2007.	*
10.19	SunTrust Banks, Inc. 401(k) Plan, amended and restated effective as of January 1, 2012 (including amendments through December 31, 2012), incorporated by reference to Exhibits 10.1, 10.1.1, 10.1.2, 10.1.3, and 10.1.4 to the Registrant's Current Report on Form 8-K filed December 27, 2012.	*
10.2	SunTrust Banks, Inc. 401(k) Plan Trust Agreement, amended and restated as of July 1, 2011, incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed February 24, 2012.	*
10.21	Consent Order dated April 13, 2011 by and among the Board of Governors of the Federal Reserve System, SunTrust Banks, Inc.; SunTrust Bank; and SunTrust Mortgage, Inc., incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011.	*
10.22	Master Agency Agreement, dated as of September 13, 2010 among SunTrust and SunTrust Robinson Humphrey, Inc. (incorporated by reference to Exhibit 1.1 to the Registrant's Form 8-K filed on September 14, 2010), as amended by Amendment No. 1 to Master Agency Agreement, dated October 3, 2012, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 3, 2012.	*
10.23	Form of Restricted Stock Unit Award Agreement, 2013 RORWA.	(filed herewith)
10.24	Form of Restricted Stock Unit Award Agreement, 2013 TSR.	(filed herewith)
12.1	Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.	(filed herewith)
21.1	Registrant's Subsidiaries.	(filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm.	(filed herewith)
31.1		

Edgar Filing: - Form

	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
31.2	Certification of Corporate Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.2	Certification of Corporate Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
101.1	Interactive Data File.	(filed herewith)

205

---

Certain instruments defining rights of holders of long-term debt of the Registrant and its subsidiaries are not filed herewith pursuant to Item 601(b)(4)(iii) of Regulation S-K. At the Commission's request, the Registrant agrees to give the Commission a copy of any instrument with respect to long-term debt of the Registrant and its consolidated subsidiaries and any of its unconsolidated subsidiaries for which financial statements are required to be filed under which the total amount of debt securities authorized does not exceed ten percent of the total assets of the Registrant and its subsidiaries on a consolidated basis.

\* incorporated by reference

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUNTRUST BANKS, INC.

Dated: February 27, 2013

By: /s/ William H. Rogers, Jr.  
William H. Rogers, Jr., Chairman  
and Chief Executive Officer

#### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Raymond D. Fortin and Aleem Gillani and each of them acting individually, as his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments said Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Edgar Filing: - Form

Signatures	Date	Title
Principal Executive Officer: /s/ William H. Rogers, Jr. William H. Rogers, Jr.	February 27, 2013 Date	Chairman of the Board (Director) and Chief Executive Officer
Principal Financial Officer: /s/ Aleem Gillani Aleem Gillani	February 27, 2013 Date	Corporate Executive Vice President and Chief Financial Officer
Principal Accounting Officer: /s/ Thomas E. Panther Thomas E. Panther	February 27, 2013 Date	Senior Vice President and Director of Corporate Finance & Controller
Directors: /s/ Robert M. Beall, II Robert M. Beall, II	February 12, 2013 Date	Director
/s/ Alston D. Correll Alston D. Correll	February 12, 2013 Date	Director
/s/ Jeffrey C. Crowe Jeffrey C. Crowe	February 12, 2013 Date	Director
/s/ Blake P. Garrett, Jr. Blake P. Garrett, Jr.	February 12, 2013 Date	Director
/s/ David H. Hughes David H. Hughes	February 12, 2013 Date	Director
/s/ M. Douglas Ivester M. Douglas Ivester	February 12, 2013 Date	Director
/s/ Kyle Prechtl Legg Kyle Prechtl Legg	February 12, 2013 Date	Director
/s/ William A. Linnenbringer William A. Linnenbringer	February 12, 2013 Date	Director
/s/ G. Gilmer Minor, III G. Gilmer Minor, III	February 12, 2013 Date	Director
/s/ Donna Morea Donna Morea	February 12, 2013 Date	Director
/s/ David M. Ratcliffe David M. Ratcliffe	February 12, 2013 Date	Director

Edgar Filing: - Form

/s/ Thomas R. Watjen  
Thomas R. Watjen

February 12, 2013  
Date

Director

/s/ Dr. Phail Wynn, Jr.  
Dr. Phail Wynn, Jr.

February 12, 2013  
Date

Director

207