SUNTRUST BANKS INC
Form 10-Q
November 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011
or
[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-08918
SUNTRUST BANKS, INC.
(Exact name of registrant as specified in its charter)

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

303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(404) 588-7711
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).
x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
At October 31, 2011, 536,997,314 shares of the Registrant's Common Stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS

		Page
Glossary of Defined Terms		i
PART I FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Income	1
	Consolidated Balance Sheets	2
	Consolidated Statements of Shareholders' Equity	3
	Consolidated Statements of Cash Flows	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	75
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	115
Item 4.	Controls and Procedures	115
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	115
Item 1A.	Risk Factors	115
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	117
Item 3.	Defaults Upon Senior Securities	117
Item 4.	(Removed and Reserved)	117
Item 5.	Other Information	118
Item 6.	Exhibits	118
SIGNATURE		119

PART I – FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011.

GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
AFS — Available for sale.
ALCO — Asset/Liability Management Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ARS — Auction rate securities.
ASC —FASB Accounting Standard Codification.
ASU — Accounting standards update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
CCAR — Comprehensive Capital Analysis and Review.
CDO — Collateralized debt obligation.
CD — Certificate of deposit.
CDS — Credit default swaps.
CIB — Corporate and Investment Banking.
Class A shares — Visa Inc. Class A common stock.
Class B shares —Visa Inc. Class B common stock.
CLO — Collateralized loan obligation.
Coke — The Coca-Cola Company.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPP — Capital Purchase Program.
CRE — Commercial Real Estate.
CSA — Credit support annex.
DBRS — Dun and Bradstreet, Inc.
Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EPS — Earnings per share.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.
FASB — Financial Accounting Standards Board.
FDIC — The Federal Deposit Insurance Corporation.
Federal Reserve — The Board of Governors of the Federal Reserve System.
Fed funds — Federal funds.
FFIEC — Federal Financial Institutions Examination Council.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.

FICO — Fair Isaac Corporation.
FINRA — Financial Industry Regulatory Authority.
Fitch — Fitch Ratings Ltd.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GB&T — GB&T Bancshares, Inc.
GSE — Government-sponsored enterprise.
IFRS — International Financial Reporting Standards.
IPO — Initial public offering.
IRLC — Interest rate lock commitments.
IRS — Internal Revenue Service.
ISDA — International Swaps and Derivatives Associations Master Agreement.
KBW Bank Sector Index — Keefe, Bruyette & Woods, Inc. Bank Sector Index.
LHFI — Loans held for investment.
LHFI-FV — Loans held for investment carried at fair value.
LHFS — Loans held for sale.
LIBOR —London InterBank Offered Rate.
LOCOM – Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MBS — Mortgage-backed securities.
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations.
Moody's — Moody's Investors Service.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NEO — Named executive officers.
NOW — Negotiable order of withdrawal account.
NPL — Nonperforming loan.
NSF — Non-sufficient funds.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
Parent Company — Parent Company of SunTrust Banks, Inc. and subsidiaries.
QSPE — Qualifying special-purpose entity.
RidgeWorth — RidgeWorth Capital Management, Inc.
ROA — Return on average total assets.
ROE — Return on average common shareholders' equity.
S&P — Standard and Poor's.
SBA — Small Business Administration.
SEC — U.S. Securities and Exchange Commission.
SERP — Supplemental Executive Retirement Plan.

SIV — Structured investment vehicles.
SPE — Special purpose entity.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
TARP — Troubled Asset Relief Program.
TDR — Troubled debt restructuring.
The Agreements — Equity forward agreements.
Three Pillars —Three Pillars Funding, LLC.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
UTB — Unrecognized tax benefits.
VA —Veteran's Administration.
VAR —Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa —The Visa, U.S.A. Inc. card association or its affiliates, collectively.
W&IM — Wealth and Investment Management.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.
Consolidated Statements of Income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	$1,296	$1,330	$3,910	$3,964
Interest and fees on loans held for sale	21	36	71	102
Interest and dividends on securities available for sale:				
Taxable interest	175	189	517	532
Tax-exempt interest	5	7	16	25
Dividends[1]	20	19	61	57
Trading account interest	21	23	63	67
Total interest income	1,538	1,604	4,638	4,747
Interest Expense				
Interest on deposits	154	214	485	672
Interest on long-term debt	110	138	347	451
Interest on trading liabilities	7	9	22	23
Interest on repurchase agreements	1	2	4	4
Interest on other short-term borrowings	3	3	9	10
Total interest expense	275	366	867	1,160
Net interest income	1,263	1,238	3,771	3,587
Provision for credit losses	347	615	1,186	2,138
Net interest income after provision for credit losses	916	623	2,585	1,449
Noninterest Income				
Service charges on deposit accounts	176	184	509	588
Other charges and fees	130	137	386	399
Card fees	104	96	309	277
Trust and investment management income	134	124	404	373
Retail investment services	58	52	175	147
Mortgage production related income	54	133	56	86
Mortgage servicing related income	58	132	202	290
Investment banking income	68	96	231	210
Trading account profits/(losses) and commissions	66	(22)	171	80
Net securities gains[2]	2	69	98	128
Other noninterest income	53	46	157	119
Total noninterest income	903	1,047	2,698	2,697
Noninterest Expense				
Employee compensation	642	597	1,898	1,729
Employee benefits	108	112	354	354
Outside processing and software	164	157	484	463
Net occupancy expense	90	92	268	273
Regulatory assessments	80	67	232	197
Other real estate expense	62	78	195	210
Credit and collection services	71	69	182	208
Equipment expense	44	45	132	128
Marketing and customer development	41	43	125	121

Operating losses	72	27	161	57
Amortization of intangible assets	11	13	34	39
Net (gain)/loss on debt extinguishment	(1)	12	(3)	67
Other noninterest expense	176	187	505	516
Total noninterest expense	1,560	1,499	4,567	4,362
Income/(loss) before provision/(benefit) for income taxes	259	171	716	(216)
Provision/(benefit) for income taxes	45	14	136	(230)
Net income including income attributable to noncontrolling interest	214	157	580	14
Net (loss)/income attributable to noncontrolling interest	(1)	4	7	9
Net income	$215	$153	$573	$5
Net income/(loss) available to common shareholders	$211	$84	$424	($201)
Net income/(loss) per average common share				
Diluted[3]	$0.39	$0.17	$0.81	($0.41)
Basic	0.40	0.17	0.81	(0.41)
Dividends declared per common share	$0.05	$0.01	$0.07	$0.03
Average common shares - diluted	535,395	498,802	524,888	498,515
Average common shares - basic	531,928	495,501	521,248	495,243

[1] Includes dividends on common stock of The Coca-Cola Company of $14 million and $42 million during the three and nine months ended September 30, 2011, respectively, and $13 million and $40 million during the three and nine months ended September 30, 2010, respectively.

[2] Includes credit-related other-than-temporary impairment losses of $2 million for the nine months ended September 30, 2011 and 2010. There were no credit-related other-than-temporary impairment losses for the three months ended September 30, 2011 and 2010.

[3] For earnings per share calculation purposes, the impact of dilutive securities are excluded from the diluted share count during periods that the Company has recognized a net loss available to common shareholders because the impact would be anti-dilutive.

See Notes to Consolidated Financial Statements (unaudited).

1

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands) (Unaudited)	As of September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$4,637	$4,296
Interest-bearing deposits in other banks	21	24
Funds sold and securities purchased under agreements to resell	842	1,058
Cash and cash equivalents	5,500	5,378
Trading assets	6,288	6,175
Securities available for sale	27,502	26,895
Loans held for sale[1] (loans at fair value: $1,675 as of September 30, 2011 and $3,168 as of December 31, 2010)	2,243	3,501
Loans[2] (loans at fair value: $452 as of September 30, 2011 and $492 as of December 31, 2010)	117,475	115,975
Allowance for loan and lease losses	(2,600)	(2,974)
Net loans	114,875	113,001
Premises and equipment	1,559	1,620
Goodwill	6,344	6,323
Other intangible assets (MSRs at fair value: $1,033 as of September 30, 2011 and $1,439 as of December 31, 2010)	1,138	1,571
Other real estate owned	509	596
Other assets	6,595	7,814
Total assets	$172,553	$172,874
Liabilities and Shareholders’ Equity		
Noninterest-bearing consumer and commercial deposits	$32,447	$27,290
Interest-bearing consumer and commercial deposits	91,486	92,735
Total consumer and commercial deposits	123,933	120,025
Brokered deposits (CDs at fair value: $1,056 as of September 30, 2011 and $1,213 of December 31, 2010)	2,283	2,365
Foreign deposits	35	654
Total deposits	126,251	123,044
Funds purchased	998	951
Securities sold under agreements to repurchase	2,016	2,180
Other short-term borrowings	3,218	2,690
Long-term debt [3] (debt at fair value: $2,016 as of September 30, 2011 and $2,837 as of December 31, 2010)	13,544	13,648
Trading liabilities	1,735	2,678
Other liabilities	4,591	4,553
Total liabilities	152,353	149,744
Preferred stock, no par value	172	4,942
Common stock, $1.00 par value	550	515
Additional paid in capital	9,314	8,403
Retained earnings	8,933	8,542
Treasury stock, at cost, and other	(795)	(888)
Accumulated other comprehensive income, net of tax	2,026	1,616
Total shareholders’ equity	20,200	23,130
Total liabilities and shareholders’ equity	$172,553	$172,874

Common shares outstanding	537,001	500,436
Common shares authorized	750,000	750,000
Preferred shares outstanding	2	50
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	12,919	14,231

[1] Includes loans held for sale, at fair value, of consolidated VIEs	$311	$316
[2] Includes loans of consolidated VIEs	3,161	2,869
[3] Includes debt of consolidated VIEs ($285 and $290 at fair value at September 30, 2011 and December 31, 2010, respectively)	728	764

See Notes to Consolidated Financial Statements (unaudited).

2

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock and Other[1]	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2010	$4,917	499	$515	$8,521	$8,563	($1,055)	$1,070	$22,531
Net income	—	—	—	—	5	—	—	5
Other comprehensive income:								
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	—	472	472
Change in unrealized gains on derivatives, net of taxes	—	—	—	—	—	—	438	438
Change related to employee benefit plans	—	—	—	—	—	—	85	85
Total comprehensive income								1,000
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, $0.03 per share	—	—	—	—	(15)	—	—	(15)
Series A preferred stock dividends, $3,044 per share	—	—	—	—	(6)	—	—	(6)
U.S. Treasury preferred stock dividends, $3,750 per share	—	—	—	—	(182)	—	—	(182)
Accretion of discount for preferred stock issued to U.S. Treasury	18	—	—	—	(18)	—	—	—
Stock compensation expense	—	—	—	18	—	—	—	18
Restricted stock activity	—	1	—	(73)	—	43	—	(30)
Amortization of restricted stock compensation	—	—	—	—	—	31	—	31
Issuance of stock for employee benefit plans and other	—	—	—	(23)	3	31	—	11
Fair value election of MSRs	—	—	—	—	89	—	—	89
Adoption of VIE consolidation guidance	—	—	—	—	(7)	—		(7)
Balance, September 30, 2010	$4,935	500	$515	$8,443	$8,432	($952)	$2,065	$23,438
Balance, January 1, 2011	$4,942	500	$515	$8,403	$8,542	($888)	$1,616	$23,130
Net income	—	—	—	—	573	—	—	573
Other comprehensive income:								
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	—	294	294
Change in unrealized gains on derivatives, net of taxes	—	—	—	—	—	—	129	129
Change related to employee benefit plans	—	—	—	—	—	—	(13)	(13)
Total comprehensive income								983
Change in noncontrolling interest	—	—	—	—	—	(8)	—	(8)
	—	—	—	—	(37)	—	—	(37)

Common stock dividends, $0.07 per share								
Series A preferred stock dividends, $3,044 per share	—	—	—	—	(5)	—	—	(5)
U.S. Treasury preferred stock dividends, $1,236 per share	—	—	—	—	(60)	—	—	(60)
Accretion of discount for preferred stock issued to U.S. Treasury	6	—	—	—	(6)	—	—	—
Repurchase of preferred stock issued to U.S. Treasury	(4,776)	—	—	—	(74)	—	—	(4,850)
Purchase of outstanding warrants	—	—	—	(11)	—	—	—	(11)
Issuance of common stock	—	35	35	982	—	—	—	1,017
Stock compensation expense	—	—	—	9	—	—	—	9
Restricted stock activity	—	2	—	(57)	—	49	—	(8)
Amortization of restricted stock compensation	—	—	—	—	—	25	—	25
Issuance of stock for employee benefit plans and other	—	—	—	(12)	—	27	—	15
Balance, September 30, 2011	$172	537	$550	$9,314	$8,933	($795)	$2,026	$20,200

[1] Balance at September 30, 2011 includes ($858) for treasury stock, ($58) for compensation element of restricted stock, and $121 for noncontrolling interest.

Balance at September 30, 2010 includes ($1,014) for treasury stock, ($44) for compensation element of restricted stock, and $106 for noncontrolling interest.

See Notes to Consolidated Financial Statements (unaudited).

3

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2011	2010
Cash Flows from Operating Activities:		
Net income including income attributable to noncontrolling interest	$580	$14
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	563	600
Origination of mortgage servicing rights	(183)	(198)
Provisions for credit losses and foreclosed property	1,309	2,277
Amortization of restricted stock compensation	25	31
Net (gain)/loss on extinguishment of debt	(3)	67
Net securities gains	(98)	(128)
Net gain on sale of assets	(309)	(440)
Net decrease in loans held for sale	2,146	1,296
Net increase in other assets	(556)	(185)
Net increase in other liabilities	265	513
Net cash provided by operating activities	3,739	3,847
Cash Flows from Investing Activities:		
Proceeds from maturities, calls, and paydowns of securities available for sale	3,903	4,040
Proceeds from sales of securities available for sale	11,585	14,102
Purchases of securities available for sale	(15,664)	(19,779)
Proceeds from maturities, calls, and paydowns of trading securities	132	88
Proceeds from sales of trading securities	102	93
Net increase in loans including purchases of loans	(5,018)	(2,662)
Proceeds from sales of loans	499	696
Capital expenditures	(78)	(156)
Contingent consideration and other payments related to acquisitions	(20)	(4)
Proceeds from the sale of other assets	481	568
Net cash used in investing activities	(4,078)	(3,014)
Cash Flows from Financing Activities:		
Net increase/(decrease) in total deposits	3,207	(1,518)
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	1,416	1,011
Proceeds from the issuance of long-term debt	1,039	500
Repayment of long-term debt	(1,255)	(3,466)
Proceeds from the issuance of common stock	1,017	—
Repurchase of preferred stock	(4,850)	—
Purchase of outstanding warrants	(11)	—
Common and preferred dividends paid	(102)	(202)
Net cash provided by/(used in) financing activities	461	(3,675)
Net increase/(decrease) in cash and cash equivalents	122	(2,842)
Cash and cash equivalents at beginning of period	5,378	6,997
Cash and cash equivalents at end of period	$5,500	$4,155
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$53	$111
Loans transferred from loans to loans held for sale	657	296
Loans transferred from loans and loans held for sale to other real estate owned	570	870
Accretion of discount for preferred stock issued to the U.S. Treasury	80	18

Total assets of newly consolidated VIEs at January 1, 2010	—	2,541

See Notes to Consolidated Financial Statements (unaudited).

4

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Except for accounting policies that have been modified or recently adopted as described below, there have been no significant changes to the Company's accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are considered LHFI. The Company's loan balance is comprised of loans held in portfolio, including commercial loans, consumer loans, and residential loans. Interest income on all types of loans, except those classified as nonaccrual, is accrued based upon the outstanding principal amounts using the effective yield method.

Commercial loans (commercial & industrial, commercial real estate, and commercial construction) are considered to be past due when payment is not received from the borrower by the contractually specified due date. The Company typically classifies commercial loans as nonaccrual when one of the following events occurs: (i) interest or principal has been past due 90 days or more, unless the loan is both well secured and in the process of collection; (ii) collection of recorded interest or principal is not anticipated; or (iii) income for the loan is recognized on a cash basis due to the deterioration in the financial condition of the debtor. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized after the principal has been reduced to zero. If and when commercial borrowers demonstrate the ability to repay a loan in accordance with the contractual terms of a loan classified as nonaccrual, the loan may be returned to accrual status, upon meeting all regulatory, accounting, and internal policy requirements.

Consumer loans (guaranteed student loans, other direct, indirect, and credit card) are considered to be past due when payment is not received from the borrower by the contractually specified due date. Other direct and indirect loans are typically placed on nonaccrual when payments have been past due for 90 days or more except when the borrower has declared bankruptcy, in which case, they are moved to nonaccrual status once they become 60 days past due. Credit card loans are never placed on nonaccrual status but rather are charged off once they are 180 days past due. Guaranteed student loans continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized after the principal has been reduced to zero. Nonaccrual consumer loans are typically returned to accrual status once they are no longer past due.

Residential loans (guaranteed residential mortgages, nonguaranteed residential mortgages, home equity products, and residential construction) are considered to be past due when a monthly payment is due and unpaid for one month. Nonguaranteed residential mortgages and residential construction loans are generally placed on nonaccrual when payments are 120 days past due. Home equity products are generally placed on nonaccrual when payments are 90 days past due. The exception for nonguaranteed residential mortgages, residential construction loans, and home equity products is when the borrower has declared bankruptcy, in which case, they are moved to nonaccrual status once they become 60 days past due. Guaranteed residential mortgages continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured. When a loan is placed on nonaccrual, unpaid interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized on a cash

basis. Nonaccrual residential loans are typically returned to accrual status once they no longer meet the delinquency threshold that resulted in them initially being moved to nonaccrual status.

5

Notes to Consolidated Financial Statements (Unaudited)-Continued

TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower. To date, the Company's TDRs have been predominantly first and second lien residential mortgages and home equity lines of credit. Prior to modifying a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service under the potential modified loan terms. The types of concessions granted are generally interest rate reductions and/or term extensions. If a loan is accruing at the time of modification, the loan remains on accrual status and is subject to the Company's charge-off and nonaccrual policies. See the "Allowance for Credit Losses" section within this Note for further information regarding these policies. If a loan is on nonaccrual before it is determined to be a TDR then the loan remains on nonaccrual. TDRs may be returned to accrual status if there has been at least a six month sustained period of repayment performance by the borrower. Consistent with regulatory guidance, upon sustained performance and classification as a TDR through the Company's year end, the loan will be removed from TDR status as long as the modified terms were market-based at the time of modification. Generally, once a residential loan becomes a TDR, we expect that the loan will likely continue to be reported as a TDR for its remaining life even after returning to accruing status as the modified rates and terms at the time of modification were typically more favorable than those generally available in the market. Interest income recognition on impaired loans is dependent upon nonaccrual status, TDR designation, and loan type as discussed above.

For loans accounted for at amortized cost, fees and incremental direct costs associated with the loan origination and pricing process, as well as premiums and discounts, are deferred and amortized as level yield adjustments over the respective loan terms. Premiums for purchased credit cards are amortized on a straight-line basis over one year. Fees received for providing loan commitments that result in funded loans are recognized over the term of the loan as an adjustment of the yield. If a loan is never funded, the commitment fee is recognized into noninterest income at the expiration of the commitment period. Origination fees and costs are recognized in noninterest income and expense at the time of origination for newly-originated loans that are accounted for at fair value. See Note 3, "Loans," for additional information.

Allowance for Credit Losses

The Allowance for Credit Losses is composed of the ALLL and the reserve for unfunded commitments. The Company's ALLL is the amount considered adequate to absorb probable losses within the portfolio based on management's evaluation of the size and current risk characteristics of the loan portfolio. In addition to the review of credit quality through ongoing credit review processes, the Company employs a variety of modeling and estimation techniques to measure credit risk and construct an appropriate and adequate ALLL. Numerous asset quality measures, both quantitative and qualitative, are considered in estimating the ALLL. Such evaluation considers numerous factors for each of the loan portfolio segments, including, but not limited to net charge-off trends, internal risk ratings, changes in internal risk ratings, loss forecasts, collateral values, geographic location, delinquency rates, nonperforming and restructured loan status, origination channel, product mix, underwriting practices, industry conditions, and economic trends. In addition to these factors, refreshed FICO scores are considered for consumer and residential loans and single name borrower concentration is considered for commercial loans. These credit quality factors are incorporated into various loss estimation models and analytical tools utilized in the ALLL process and/or are qualitatively considered in evaluating the overall reasonableness of the ALLL.

Large commercial (all loan classes) nonaccrual loans and certain consumer (other direct), residential (nonguaranteed residential mortgages, home equity products, and residential construction), and commercial (all classes) loans whose terms have been modified in a TDR are individually identified for evaluation of impairment. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. If necessary, a specific allowance is established for individually evaluated impaired loans. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral depending on the most likely source of repayment. Any change in the present value attributable to the passage of time is recognized through the provision for credit losses.

General allowances are established for loans and leases grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience, portfolio trends, regional and national economic conditions, and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the ALLL after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or other risk rating data. These influences may include elements such as changes in credit underwriting, concentration risk, macroeconomic conditions, and/or recent observable asset quality trends.

The Company's charge-off policy meets regulatory minimums. Losses on unsecured consumer loans are recognized at 90 days past due compared to the regulatory loss criteria of 120 days past due. Losses, as appropriate, on secured consumer loans, including residential real estate, are typically recognized between 120 and 180 days past due, depending on the collateral type, in compliance with the FFIEC guidelines. Loans that have been partially charged-off remain on nonperforming status, regardless of collateral value, until specific borrower performance criteria are met.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company uses numerous sources of information in order to make an appropriate evaluation of a property's value. Estimated collateral valuations are based on appraisals, broker price opinions, recent sales of foreclosed properties, automated valuation models, other property-specific information, and relevant market information, supplemented by the Company's internal property valuation professionals. The value estimate is based on an orderly disposition and marketing period of the property. In limited instances, the Company adjusts externally provided appraisals for justifiable and well-supported reasons, such as an appraiser not being aware of certain property-specific factors or recent sales information. Appraisals generally represent the "as is" value of the property but may be adjusted based on the intended disposition strategy of the property.

For commercial real estate loans secured by property, an acceptable third-party appraisal or other form of evaluation, as permitted by regulation, is obtained prior to the origination of the loan and upon a subsequent transaction involving a material change in terms. In addition, updated valuations may be obtained during the life of a transaction, as appropriate, such as when a loan's performance materially deteriorates. In situations where an updated appraisal has not been received or a formal evaluation performed, the Company monitors factors that can positively or negatively impact property value, such as the date of the last valuation, the volatility of property values in specific markets, changes in the value of similar properties, and changes in the characteristics of individual properties. Changes in collateral value affect the ALLL through the risk rating or impaired loan evaluation process. Charge-offs are recognized when the amount of the loss is quantifiable and timing is known. The charge-off is measured based on the difference between the loan's carrying value, including deferred fees, and the estimated net realizable value of the loan, net of estimated selling costs. When assessing property value for the purpose of determining a charge-off, a third-party appraisal or an independently derived internal evaluation is generally employed.

For mortgage loans secured by residential property where the Company is proceeding with a foreclosure action, a new valuation is obtained prior to the loan becoming 180 days past due and, if required, the loan is written down to net realizable value, net of estimated selling costs. In the event the Company decides not to proceed with a foreclosure action, the full balance of the loan is charged-off. If a loan remains in the foreclosure process for 12 months past the original charge-off, typically at 180 days past due, the Company obtains a new valuation and, if required, writes the loan down to the new valuation, less estimated selling costs. At foreclosure, a new valuation is obtained and the loan is transferred to OREO at the new valuation less estimated selling costs; any loan balance in excess of the transfer value is charged-off. Estimated declines in value of the residential collateral between these formal evaluation events are captured in the ALLL based on changes in the house price index in the applicable metropolitan statistical area or other market information.

In addition to the ALLL, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and binding unfunded loan commitments. Unfunded lending commitments are analyzed and segregated by risk similar to funded loans based on the Company's internal risk rating scale. These risk classifications, in combination with an analysis of historical loss experience, probability of commitment usage, existing economic conditions, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. The reserve for unfunded lending commitments is reported on the Consolidated Balance Sheets in other liabilities and through the third quarter of 2009, the provision associated with changes in the unfunded lending commitment reserve was reported in the Consolidated Statements of Income in noninterest expense. Beginning in the fourth quarter of 2009, the Company began recording changes in the unfunded lending commitment reserve in the provision for credit losses. See Note 4, "Allowance for Credit Losses," for additional information.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, an update to ASC 820-10, "Fair Value Measurements." This ASU requires the disclosure of transfers in and out of level 1 and 2 of the fair value hierarchy, along with the reasons for the transfers and a gross presentation of purchases and sales of level 3 instruments. Additionally, the ASU requires fair value measurement disclosures for each class of assets and liabilities and enhanced disclosures around level 2 valuation techniques and inputs. The Company adopted the disclosure requirements for level 1 and 2 transfers and the expanded fair value measurement and valuation disclosures effective January 1, 2010. The disclosure requirements for level 3 activities were effective for the interim reporting period ending March 31, 2011. The required disclosures are

included in Note 12, “Fair Value Election and Measurement.” The adoption of these disclosure requirements had no impact on the Company’s financial position, results of operations, or EPS.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The ASU requires more disclosures about the credit quality of financing receivables, which include loans, lease receivables, and other long-term receivables, and the credit allowances held against them. The disclosure requirements that were effective as of December 31, 2010 are included in Note 3, “Loans,” and Note 4, “Allowance for Credit Losses.” Disclosures about activity that occurs during a reporting period were effective for the interim reporting period ending March 31, 2011 are also included in Note 3, “Loans,” and Note 4, “Allowance for Credit Losses.” The adoption of the ASU did not have an impact on the Company’s financial position, results of operations, or EPS.

In December 2010, the FASB issued ASU 2010-28, “When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” The update requires companies to perform step 2 of the goodwill impairment analysis if the carrying value of a reporting unit is zero or negative and it is more likely than not that goodwill for that reporting unit is impaired. The adoption of the ASU as of January 1, 2011 did not have an impact on the Company’s financial position, results of operations, or EPS.

In April 2011, the FASB issued ASU 2011-02, “Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The ASU provides additional guidance to assist creditors in determining whether a modification of a receivable meets the criteria to be considered a TDR, both for purposes of recognizing loan losses and additional disclosures regarding TDRs. A modification of a credit arrangement constitutes a TDR if the debtor is experiencing financial difficulties and the Company grants a concession to the debtor that it would not otherwise consider. The clarifications for classification apply to all restructurings occurring on or after January 1, 2011. The measurement of impairment for those newly identified TDRs was applied prospectively beginning on July 1, 2011. The related disclosures, which were previously deferred by ASU 2011-01, were required for the interim reporting period ending September 30, 2011 and subsequent reporting periods. The required disclosures and impact as a result of adoption are included in Note 3, “Loans.” The adoption of the ASU did not have a significant impact on the Company’s financial position, results of operations, or EPS.

In April 2011, the FASB issued ASU 2011-03, “Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements.” A repurchase agreement is a transaction in which a company sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date. The determination of whether the transaction is accounted for as a sale or a collateralized financing is determined by assessing whether the seller retains effective control of the financial instrument. The ASU changes the assessment of effective control by removing the criterion that requires the seller to have the ability to repurchase or redeem financial assets with substantially the same terms, even in the event of default by the buyer and the collateral maintenance implementation guidance related to that criterion. The Company will apply the new guidance to repurchase agreements entered into or amended after January 1, 2012. The Company does not expect the ASU to have a significant impact on the Company’s financial position, results of operations, or EPS.

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” The primary purpose of the ASU is to conform the language in the fair value measurements guidance in U.S. GAAP and IFRS. The ASU also clarifies how to apply existing fair value measurement and disclosure requirements. Further, the ASU requires additional disclosures about transfers between level 1 and 2 of the fair value hierarchy, quantitative information for level 3 inputs, and the level of the fair value measurement hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. The ASU is effective for the interim reporting period ending March 31, 2012. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company’s financial position, results of operations, or EPS.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” The ASU requires presentation of the components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The update does not change the items presented in OCI and does not affect the calculation or reporting of EPS. The guidance is effective on January 1, 2012 and must be applied retrospectively for all periods presented. The Company is in the process of evaluating the presentation options; however, adoption of the ASU will not have an impact on the Company’s financial position, results of operations, or EPS.

In September 2011, the FASB issued ASU 2011-08, “Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.” The ASU amends interim and annual goodwill impairment testing requirements. Under the ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more likely than not threshold is

defined as having a likelihood of more than 50 percent. The guidance is effective for annual and interim goodwill impairment tests beginning January 1, 2012 with early adoption permitted. The Company has not elected to early adopt the amendments; however, adoption of the ASU will not have an impact on the Company's financial position, results of operations, or EPS.

Notes to Consolidated Financial Statements (Unaudited)-Continued

NOTE 2 – SECURITIES AVAILABLE FOR SALE
Securities Portfolio Composition

(Dollars in millions)	September 30, 2011 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$374	$12	$—	$386
Federal agency securities	2,527	118	—	2,645
U.S. states and political subdivisions	471	21	2	490
MBS - agency	19,302	728	—	20,030
MBS - private	319	1	33	287
CDO/CLO securities	337	—	5	332
ABS	534	13	7	540
Corporate and other debt securities	53	2	1	54
Coke common stock	—	2,027	—	2,027
Other equity securities[1]	710	1	—	711
Total securities AFS	$24,627	$2,923	$48	$27,502

(Dollars in millions)	December 31, 2010 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$5,446	$115	$45	$5,516
Federal agency securities	1,883	19	7	1,895
U.S. states and political subdivisions	565	17	3	579
MBS - agency	14,014	372	28	14,358
MBS - private	378	3	34	347
CDO/CLO securities	50	—	—	50
ABS	798	15	5	808
Corporate and other debt securities	464	19	1	482
Coke common stock	—	1,973	—	1,973
Other equity securities[1]	886	1	—	887
Total securities AFS	$24,484	$2,534	$123	$26,895

[1]At September 30, 2011, other equity securities included the following securities at cost: $171 million in FHLB of Atlanta stock, $391 million in Federal Reserve Bank stock, and $148 million in mutual fund investments. At December 31, 2010, other equity securities included the following securities at cost: $298 million in FHLB of Atlanta stock, $391 million in Federal Reserve Bank stock, and $197 million in mutual fund investments.

Securities AFS that were pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $7.9 billion and $6.9 billion as of September 30, 2011 and December 31, 2010, respectively. Further, under The Agreements, the Company pledged its shares of Coke common stock, which is hedged with derivative instruments, as discussed in Note 11, “Derivative Financial Instruments.” The Company has also pledged $1.1 billion and $823 million of certain trading assets and cash equivalents to secure $1.0 billion and $793 million of repurchase agreements as of September 30, 2011 and December 31, 2010, respectively.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The amortized cost and fair value of investments in debt securities at September 30, 2011 by estimated average life are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Distribution of Maturities:					
Amortized Cost					
U.S. Treasury securities	$9	$213	$152	$—	$374
Federal agency securities	73	2,209	189	56	2,527
U.S. states and political subdivisions	136	245	26	64	471
MBS - agency	1,101	11,236	4,050	2,915	19,302
MBS - private	31	141	130	17	319
CDO/CLO securities	—	237	100	—	337
ABS	328	204	2	—	534
Corporate and other debt securities	7	4	17	25	53
Total debt securities	$1,685	$14,489	$4,666	$3,077	$23,917
Fair Value					
U.S. Treasury securities	$9	$224	$153	$—	$386
Federal agency securities	74	2,309	204	58	2,645
U.S. states and political subdivisions	139	260	27	64	490
MBS - agency	1,138	11,644	4,246	3,002	20,030
MBS - private	28	129	114	16	287
CDO/CLO securities	—	234	98	—	332
ABS	335	203	2	—	540
Corporate and other debt securities	7	4	18	25	54
Total debt securities	$1,730	$15,007	$4,862	$3,165	$24,764

Securities in an Unrealized Loss Position

The Company held certain investment securities having unrealized loss positions. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuates. As of September 30, 2011, the Company did not intend to sell these securities nor was it more likely than not that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies outlined in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Notes to Consolidated Financial Statements (Unaudited)-Continued

	September 30, 2011					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
Federal agency securities	$34	$—	$—	$—	$34	$—
U.S. states and political subdivisions	2	—	32	2	34	2
MBS - agency	52	—	—	—	52	—
MBS - private	9	—	22	3	31	3
CDO/CLO securities	333	5	—	—	333	5
ABS	—	—	11	5	11	5
Corporate and other debt securities	—	—	2	1	2	1
Total temporarily impaired securities	430	5	67	11	497	16
Other-than-temporarily impaired securities[1]						
MBS - private	18	1	220	29	238	30
ABS	3	1	2	1	5	2
Total other-than-temporarily impaired securities	21	2	222	30	243	32
Total impaired securities	$451	$7	$289	$41	$740	$48

	December 31, 2010					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily impaired securities						
U.S. Treasury securities	$2,010	$45	$—	$—	$2,010	$45
Federal agency securities	1,426	7	—	—	1,426	7
U.S. states and political subdivisions	45	1	35	2	80	3
MBS - agency	3,497	28	—	—	3,497	28
MBS - private	18	—	17	3	35	3
ABS	—	—	14	4	14	4
Corporate and other debt securities	—	—	3	1	3	1
Total temporarily impaired securities	6,996	81	69	10	7,065	91
Other-than-temporarily impaired securities[1]						
MBS - private	—	—	286	31	286	31
ABS	4	1	—	—	4	1
Total other-than-temporarily impaired securities	4	1	286	31	290	32

Total impaired securities	$7,000	$82	$355	$41	$7,355	$123

[1]Includes OTTI securities for which credit losses have been recorded in earnings in current or prior periods.
Unrealized losses on securities that have been other-than-temporarily impaired are the result of factors other than credit, and therefore, are recorded in OCI. Losses related to credit impairment on these securities is determined through estimated cash flow analyses and have been recorded in earnings in current or prior periods. The unrealized OTTI loss relating to private MBS as of September 30, 2011, includes purchased and retained interests from 2007 vintage securitizations. The unrealized OTTI loss relating to ABS is related to four securities within the portfolio that are 2003 and 2004 vintage home equity issuances. The expectation of cash flows for the previously impaired ABS securities has improved such that the amount of expected credit losses was reduced, and the expected increase in cash flows will be accreted into earnings as a yield adjustment over the remaining life of the securities.

Notes to Consolidated Financial Statements (Unaudited)-Continued

Realized Gains and Losses and Other than Temporarily Impaired

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2011	2010	2011	2010
Gross realized gains	$4	$69	$180	$147
Gross realized losses	(2)	—	(80)	(17)
OTTI	—	—	(2)	(2)
Net securities gains	$2	$69	$98	$128

The securities that gave rise to the credit impairment recognized during the nine months ended September 30, 2011 consisted of private MBS with a fair value of $176 million at September 30, 2011. The securities impacted by credit impairment during the nine months ended September 30, 2010, consisted of private MBS with a fair value of $1 million as of September 30, 2010. Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include current default rates, prepayment rates, and loss severities. For the majority of the securities that the Company has reviewed for credit-related OTTI, credit information is available and modeled at the loan level underlying each security, and the Company also considers information such as loan to collateral values, FICO scores, and geographic considerations such as home price appreciation/depreciation. These inputs are updated on a regular basis to ensure the most current credit and other assumptions are utilized in the analysis. If, based on this analysis, the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities. During the nine months ended September 30, 2011 and 2010, all OTTI recognized in earnings on private MBS have underlying collateral of residential mortgage loans securitized in 2007. The majority of the OTTI was taken on private MBS which were originated by the Company and, therefore, have geographic concentrations in the Company's primary footprint. Additionally, the Company has not purchased new private MBS during the nine months ended September 30, 2011, and continues to reduce existing exposure primarily through paydowns.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
(Dollars in millions)			MBS - Private	MBS - Private
OTTI[1]	$—	$—	$3	$2
Portion of losses recognized in OCI (before taxes)	—	—	(1)	—
Net impairment losses recognized in earnings	$—	$—	$2	$2

[1] The initial OTTI amount represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, amount represents additional declines in the fair value subsequent to the previously recorded OTTI, if applicable, until such time the security is no longer in an unrealized loss position.

The following is a rollforward of credit losses recognized in earnings for the nine months ended September 30, 2011 and 2010, related to securities for which some portion of the OTTI loss remains in AOCI:

(Dollars in millions)	
Balance, as of January 1, 2011	$20
Additions:	
OTTI credit losses on previously impaired securities	2
Reductions:	
Increases in expected cash flows recognized over the remaining life of the securities	(1)

Balance, as of September 30, 2011	$21
Balance, as of January 1, 2010	$22
Additions/Reductions:[1]	
Increases in expected cash flows recognized over the remaining life of the securities	(1)
Balance, as of September 30, 2010	$21

[1] During the nine months ended September 30, 2010, the Company recognized $2 million of OTTI through earnings on debt securities in which no portion of the OTTI loss was included in OCI at any time during the period. OTTI related to these securities are excluded from this amount.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The following table presents a summary of the significant inputs used in determining the measurement of credit losses recognized in earnings for private MBS for the nine months ended September 30, 2011 and September 30, 2010:

	September 30, 2011	September 30, 2010
Current default rate	4 - 8%	2 - 7%
Prepayment rate	12 - 22%	14 - 22%
Loss severity	39 - 44%	37 - 46%

NOTE 3 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	September 30, 2011	December 31, 2010
Commercial loans:		
Commercial & industrial[1]	$47,985	$44,753
Commercial real estate	5,330	6,167
Commercial construction	1,390	2,568
Total commercial loans	54,705	53,488
Residential loans:		
Residential mortgages - guaranteed	4,449	4,520
Residential mortgages - nonguaranteed[2]	23,517	23,959
Home equity products	15,980	16,751
Residential construction	1,046	1,291
Total residential loans	44,992	46,521
Consumer loans:		
Guaranteed student loans	5,333	4,260
Other direct	1,945	1,722
Indirect	10,003	9,499
Credit cards	497	485
Total consumer loans	17,778	15,966
LHFI	$117,475	$115,975
LHFS	$2,243	$3,501

[1]Includes $3 million and $4 million of loans carried at fair value at September 30, 2011 and December 31, 2010, respectively.

[2]Includes $449 million and $488 million of loans carried at fair value at September 30, 2011 and December 31, 2010, respectively.

During the nine months ended September 30, 2011, the Company transferred $657 million in LHFI to LHFS. Additionally, during the nine months ended September 30, 2011, the Company sold $479 million in loans and leases that had been held for investment at December 31, 2010 for a gain of $20 million. There were no other material sales of LHFI during the period.

Credit Quality Evaluation

The Company evaluates the credit quality of its loan portfolio based on internal credit risk ratings using numerous factors, including consumer credit risk scores, rating agency information, LTV ratios, collateral, collection experience, and other internal metrics. For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is the individual loan's risk assessment expressed according to regulatory agency classification, pass or criticized. Loans are rated pass or criticized based on the borrower's willingness and ability to contractually perform

along with the estimated net losses the Company would incur in the event of default. Criticized loans have a higher probability of default. As a result, criticized loans are further categorized into accruing and nonaccruing, representing management's assessment of the collectibility of principal and interest. Ratings for loans are updated at least annually or more frequently if there is a material change in creditworthiness.

For consumer and residential loans, the Company believes that consumer credit risk, as assessed by the FICO scoring method, is a relevant credit quality indicator. FICO scores are obtained at origination as part of the Company's formal underwriting process,

Notes to Consolidated Financial Statements (Unaudited)-Continued

and refreshed FICO scores are obtained by the Company at least quarterly. However, for student loans which are guaranteed by a federal agency, the Company does not utilize FICO scores as the Company does not originate government guaranteed student loans. For guaranteed student loans, the Company monitors the credit quality based primarily on delinquency status, which it believes is the most appropriate indicator of credit quality. As of September 30, 2011 and December 31, 2010, 80% and 77%, respectively, of the guaranteed student loan portfolio was current with respect to payments; however, the loss exposure to the Company was mitigated by the government guarantee.

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

	Commercial & industrial		Commercial real estate		Commercial construction	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Credit rating:						
Pass	$45,823	$42,140	$3,763	$4,316	$600	$836
Criticized accruing	1,682	2,029	1,227	1,509	405	771
Criticized nonaccruing	480	584	340	342	385	961
Total	$47,985	$44,753	$5,330	$6,167	$1,390	$2,568

	Residential mortgages - nonguaranteed [2]		Home equity products		Residential construction	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current FICO score range:						
700 and above	$16,205	$15,920	$11,348	$11,673	$695	$828
620 - 699	4,184	4,457	2,857	2,897	215	258
Below 620[1]	3,128	3,582	1,775	2,181	136	205
Total	$23,517	$23,959	$15,980	$16,751	$1,046	$1,291

	Consumer - other direct[3]		Consumer - indirect		Consumer - credit cards	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current FICO score range:						
700 and above	$1,187	$973	$7,530	$6,780	$278	$258
620 - 699	231	231	1,764	1,799	148	149
Below 620[1]	86	105	709	920	71	78
Total	$1,504	$1,309	$10,003	$9,499	$497	$485

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

[2]Excludes $4.4 billion and $4.5 billion at September 30, 2011 and December 31, 2010, respectively, of federally guaranteed residential loans. At both September 30, 2011 and December 31, 2010, the majority of these loans had FICO scores of 700 and above.

[3]Excludes $441 million and $413 million as of September 30, 2011 and December 31, 2010, respectively, of private-label student loans with third party insurance. At both September 30, 2011 and December 31, 2010, the majority of these loans had FICO scores of 700 and above.

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

	As of September 30, 2011				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing[3]	Total
Commercial loans:					
Commercial & industrial[1]	$47,366	$74	$66	$479	$47,985
Commercial real estate	4,979	9	1	341	5,330
Commercial construction	1,004	1	—	385	1,390
Total commercial loans	53,349	84	67	1,205	54,705
Residential loans:					
Residential mortgages - guaranteed	3,237	179	1,033	—	4,449
Residential mortgages - nonguaranteed[2]	21,728	342	30	1,417	23,517
Home equity products	15,417	223	—	340	15,980
Residential construction	771	22	3	250	1,046
Total residential loans	41,153	766	1,066	2,007	44,992
Consumer loans:					
Guaranteed student loans	4,245	413	675	—	5,333
Other direct	1,918	15	5	7	1,945
Indirect	9,919	60	4	20	10,003
Credit cards	482	8	7	—	497
Total consumer loans	16,564	496	691	27	17,778
Total LHFI	$111,066	$1,346	$1,824	$3,239	$117,475

[1]Includes $3 million of loans carried at fair value.
[2]Includes $449 million of loans carried at fair value.
[3]Total nonaccruing loans past due 90 days or more totaled $2.5 billion. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs.

	As of December 31, 2010				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing[3]	Total
Commercial loans:					
Commercial & industrial[1]	$44,046	$111	$12	$584	$44,753
Commercial real estate	5,794	27	4	342	6,167
Commercial construction	1,595	11	1	961	2,568
Total commercial loans	51,435	149	17	1,887	53,488
Residential loans:					
Residential mortgages - guaranteed	3,469	167	884	—	4,520
Residential mortgages - nonguaranteed[2]	21,916	456	44	1,543	23,959
Home equity products	16,162	234	—	355	16,751
Residential construction	953	42	6	290	1,291
Total residential loans	42,500	899	934	2,188	46,521
Consumer loans:					
Guaranteed student loans	3,281	383	596	—	4,260
Other direct	1,692	15	5	10	1,722

Indirect	9,400	74	—	25	9,499
Credit cards	460	12	13	—	485
Total consumer loans	14,833	484	614	35	15,966
Total LHFI	$108,768	$1,532	$1,565	$4,110	$115,975

[1]Includes $4 million of loans carried at fair value.
[2]Includes $488 million of loans carried at fair value.
[3]Total nonaccruing loans past due 90 days or more totaled $3.3 billion. Nonaccruing loans past due fewer than 90 days include TDRs.

15

Notes to Consolidated Financial Statements (Unaudited)-Continued

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Commercial nonaccrual loans greater than $4 million and certain consumer, residential, and commercial loans whose terms have been modified in a TDR are individually evaluated for impairment. Smaller-balance homogeneous loans that are collectively evaluated for impairment are not included in the following tables. Additionally, the tables below exclude student loans and residential mortgages that were guaranteed by government agencies, for which there was nominal risk of principal loss.

	As of September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
(Dollars in millions)	Unpaid Principal Balance	Amortized Cost[1]	Related Allowance	Average Amortized Cost	Interest Income Recognized[2]	Average Amortized Cost	Interest Income Recognized[2]
Impaired loans with no related allowance recorded:							
Commercial loans:							
Commercial & industrial	$97	$96	$—	$96	$1	$101	$1
Commercial real estate	89	85	—	81	1	69	2
Commercial construction	93	91	—	74	—	92	—
Total commercial loans	279	272	—	251	2	262	3
Impaired loans with an allowance recorded:							
Commercial loans:							
Commercial & industrial	123	118	21	109	1	123	1
Commercial real estate	129	123	27	120	—	131	1
Commercial construction	237	198	31	192	1	301	2
Total commercial loans	489	439	79	421	2	555	4
Residential loans:							
Residential mortgages - nonguaranteed	2,848	2,462	278	2,471	22	2,462	66
Home equity products	544	508	95	496	7	464	17
Residential construction	253	213	25	196	2	196	5
Total residential loans	3,645	3,183	398	3,163	31	3,122	88
Consumer loans:							
Other direct	12	12	2	12	—	12	—
Total impaired loans	$4,425	$3,906	$479	$3,847	$35	$3,951	$95

[1]Amortized cost reflects charge-offs that have been recognized plus other amounts that have been applied to reduce the net book balance.
[2]Of the interest income recognized for the three and nine months ended September 30, 2011, cash basis interest income was $6 million and $19 million, respectively.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	As of December 31, 2010 Unpaid Principal Balance	Amortized Cost[1]	Related Allowance
Impaired loans with no related allowance recorded:			
Commercial loans:			
Commercial & industrial	$86	$67	$—
Commercial real estate	110	86	—
Commercial construction	67	52	—
Total commercial loans	263	205	—
Impaired loans with an allowance recorded:			
Commercial loans:			
Commercial & industrial	123	96	18
Commercial real estate	103	81	19
Commercial construction	673	524	138
Total commercial loans	899	701	175
Residential loans:			
Residential mortgages - nonguaranteed	2,785	2,467	309
Home equity products	503	503	93
Residential construction	226	196	26
Total residential loans	3,514	3,166	428
Consumer loans:			
Other direct	11	11	2
Total impaired loans	$4,687	$4,083	$605

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

Included in the impaired loan balances above were $2.6 billion and $2.5 billion of accruing TDRs at September 30, 2011 and December 31, 2010, respectively, of which 93% and 85% were current, respectively. See Note 1, “Significant Accounting Policies,” to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 for further information regarding the Company’s loan impairment policy.
At September 30, 2011 and December 31, 2010, the Company had $12 million and $15 million, respectively, in commitments to lend additional funds to debtors owing receivables whose terms have been modified in a TDR.

Notes to Consolidated Financial Statements (Unaudited)-Continued

Nonperforming assets are shown in the following table:

(Dollars in millions)	September 30, 2011	December 31, 2010
Nonaccrual/NPLs:		
Commercial loans:		
Commercial & industrial[1]	$479	$584
Commercial real estate	341	342
Commercial construction	385	961
Residential loans:		
Residential mortgages - nonguaranteed[2]	1,417	1,543
Home equity products	340	355
Residential construction	250	290
Consumer loans:		
Other direct	7	10
Indirect	20	25
Total nonaccrual/NPLs	3,239	4,110
OREO[3]	509	596
Other repossessed assets	15	52
Total nonperforming assets	$3,763	$4,758

[1]Includes $3 million and $4 million of loans carried at fair value at September 30, 2011 and December 31, 2010, respectively.
[2]Includes $23 million and $24 million of loans carried at fair value at September 30, 2011 and December 31, 2010 respectively.
[3]Does not include foreclosed real estate related to loans insured by the FHA or the VA. Proceeds due from the FHA and the VA are recorded as a receivable in other assets until the funds are received and the property is conveyed. The receivable amount related to proceeds due from the FHA or the VA totaled $134 million and $195 million at September 30, 2011 and December 31, 2010, respectively.

Restructured Loans

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

As a result of adopting newly issued accounting guidance that clarifies a creditor's determination of whether a restructuring is a TDR, the Company reassessed all loan restructurings that occurred on or after January 1, 2011 for identification as TDRs. The reassessment resulted in the identification of $93 million of additional TDRs. During the three months ended September 30, 2011, these loans were evaluated for impairment and an incremental allowance of $4 million was recognized, as a result of the new accounting guidance.

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

Notes to Consolidated Financial Statements (Unaudited)-Continued

	Three Months Ended September 30, 2011			
(Dollars in millions)	Number of Loans Modified	Rate Modification and/or Term Extension[1]	Principal Forgiveness and Other Concessions[2]	Total
Commercial loans:				
Commercial & industrial	208	$51	$—	$51
Commercial real estate	9	14	2	16
Commercial construction	11	56	9	65
Residential loans:				
Residential mortgages	304	61	—	61
Home equity products	569	42	—	42
Residential construction	266	35	—	35
Consumer loans:				
Other direct	7	—	—	—
Credit cards	716	4	—	4
Total TDRs	2,090	$263	$11	$274

[1]For these loans, borrowers received either a modification of the loan's contractual interest rate, an extension of the loan's contractual maturity date, or both. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three months ended September 30, 2011.
[2]Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness for the Commercial segment during the three months ended September 30, 2011 was $3 million, substantially all of which related to Commercial construction. There was no principal forgiveness for Residential or Consumer loans during the three months ended September 30, 2011.

	Nine Months Ended September 30, 2011			
(Dollars in millions)	Number of Loans Modified	Rate Modification and/or Term Extension[1]	Principal Forgiveness and Other Concessions[2]	Total
Commercial loans:				
Commercial & industrial	382	$80	$26	$106
Commercial real estate	34	43	18	61
Commercial construction	57	80	22	102
Residential loans:				
Residential mortgages	851	215	2	217
Home equity products	1,308	104	—	104
Residential construction	317	45	—	45
Consumer loans:				
Other direct	61	3	—	3
Credit cards	1,937	11	—	11
Total TDRs	4,947	$581	$68	$649

[1]For these loans, borrowers received either a modification of the loan's contractual interest rate, an extension of the loan's contractual maturity date, or both. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the nine months ended September 30, 2011.

[2]Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness for the Commercial segment during the nine months ended September 30, 2011 was $6 million, substantially all of which related to Commercial construction. There was no principal forgiveness for Residential or Consumer loans during the nine months ended September 30, 2011.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The following table presents loans modified under the terms of a TDR that became 90 days or more delinquent during the three and nine months ended September 30, 2011, respectively, that were initially restructured within one year prior to the three and nine months ended September 30, 2011, respectively. The preceding two tables represent loans modified under the terms of a TDR during the three and nine months ended September 30, 2011, respectively, whereas the following table relates to loans modified over longer time periods, which are described in footnotes 1 and 2 to the table.

	Three Months Ended September 30, 2011[1]		Nine Months Ended September 30, 2011[2]	
(Dollars in millions)	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
Commercial & industrial	23	$6	31	$8
Commercial real estate	5	21	8	21
Commercial construction	1	—	7	11
Residential loans:				
Residential mortgages	60	19	230	66
Home equity products	60	6	108	10
Residential construction	6	1	24	3
Consumer loans:				
Other direct	2	—	2	—
Credit cards	166	1	321	2
Total TDRs	323	$54	731	$121

[1]For the three months ended September 30, 2011, this represents defaults on loans that were first modified between the periods July 1, 2010 and September 30, 2011.
[2]For the nine months ended September 30, 2011, this represents defaults on loans that were first modified between the periods January 1, 2010 and September 30, 2011.

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

Concentrations of Credit Risk

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the U.S. SunTrust engages in limited international banking activities. The Company’s total cross-border outstanding loans were $418 million and $446 million at September 30, 2011 and December 31, 2010, respectively.

The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by residential real estate. At September 30, 2011, the Company owned $45.0 billion in residential loans, representing 38% of total LHFI, and had $13.0 billion in commitments to extend credit on home equity lines and $7.2 billion in mortgage loan commitments. Of the residential loans owned at September 30, 2011, 10% were guaranteed by a federal agency or a GSE. At December 31, 2010, the Company owned $46.5 billion in residential real estate loans, representing 40% of total LHFI, and had $13.6 billion in commitments to extend credit on home equity lines and $9.2 billion in mortgage loan commitments. Of the residential loans owned at December 31, 2010, 10% were guaranteed by a federal agency or a GSE.

Included in the residential mortgage portfolio were $16.4 billion and $17.6 billion of mortgage loans at September 30, 2011 and December 31, 2010, respectively, that were not covered by mortgage insurance and whose terms, such as an interest only feature, a high LTV ratio, or a junior lien position, may increase the Company’s exposure to credit risk and result in a concentration of credit risk. Of these mortgage loans, $11.7 billion and $13.2 billion were interest only

loans at origination, primarily with a ten year interest only period, including $1.8 billion and $2.0 billion, respectively, of loans that have since been modified into fully amortizing products.

Notes to Consolidated Financial Statements (Unaudited)-Continued

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2011	2010	2011	2010
Balance at beginning of period	$2,795	$3,216	$3,032	$3,235
Provision for loan losses	348	620	1,194	2,199
Benefit for unfunded commitments	(1)	(5)	(8)	(60)
Loan charge-offs	(536)	(725)	(1,714)	(2,355)
Loan recoveries	44	35	146	122
Balance at end of period	$2,650	$3,141	$2,650	$3,141
Components:				
ALLL	$2,600	$3,086		
Unfunded commitments reserve[1]	50	55		
Allowance for credit losses	$2,650	$3,141		

[1]The unfunded commitments reserve is separately recorded in other liabilities in the Consolidated Balance Sheets.

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

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

	Three Months Ended September 30, 2010			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$1,447	$1,538	$171	$3,156
Provision for loan losses	186	392	42	620
Loan charge-offs	(251)	(433)	(41)	(725)
Loan recoveries	20	5	10	35
Balance at end of period	$1,402	$1,502	$182	$3,086

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

	Nine Months Ended September 30, 2010			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$1,353	$1,592	$175	$3,120
Provision for loan losses	671	1,406	122	2,199
Loan charge-offs	(694)	(1,511)	(150)	(2,355)
Loan recoveries	72	15	35	122
Balance at end of period	$1,402	$1,502	$182	$3,086

As further discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, the ALLL is composed of specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for loans carried at fair value. Additionally, the Company does not record an allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss. The Company's LHFI portfolio and related ALLL at September 30, 2011 and December 31, 2010, respectively, is shown in the tables below:

	As of September 30, 2011							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$711	$79	$3,183	$398	$12	$2	$3,906	$479
Collectively evaluated	53,991	1,022	41,360	954	17,766	145	113,117	2,121
Total evaluated	54,702	1,101	44,543	1,352	17,778	147	117,023	2,600
LHFI at fair value	3	—	449	—	—	—	452	—
Total LHFI	$54,705	$1,101	$44,992	$1,352	$17,778	$147	$117,475	$2,600

	As of December 31, 2010							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$906	$175	$3,166	$428	$11	$2	$4,083	$605
Collectively evaluated	52,578	1,128	42,867	1,070	15,955	171	111,400	2,369
Total evaluated	53,484	1,303	46,033	1,498	15,966	173	115,483	2,974
LHFI at fair value	4	—	488	—	—	—	492	—
Total LHFI	$53,488	$1,303	$46,521	$1,498	$15,966	$173	$115,975	$2,974

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is required to be tested for impairment on an annual basis or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount or indicate that it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. As of September 30, 2011 and December 31, 2010, the Company's reporting units with goodwill balances were Branch Banking, Diversified Commercial Banking, CIB, and W&IM. Based on our annual impairment analysis of goodwill as of September 30, 2011, we determined there is no

Notes to Consolidated Financial Statements (Unaudited)-Continued

goodwill impairment as the fair value for all reporting units is in excess of the respective reporting unit's carrying value by the following percentages:

Branch Banking	12%
Diversified Commercial Banking	27%
CIB	36%
W&IM	150%

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

(Dollars in millions)	Retail & Commercial	Retail Banking	Diversified Commercial Banking	CIB	W&IM	Total
Balance, January 1, 2011	$—	$4,854	$928	$180	$361	$6,323
Contingent consideration	—	—	—	—	1	1
Purchase of the assets of an asset management business	—	—	—	—	20	20
Balance, September 30, 2011	$—	$4,854	$928	$180	$382	$6,344
Balance, January 1, 2010	$5,739	$—	$—	$223	$357	$6,319
Intersegment transfers	(5,739)	4,854	928	(43)	—	—
Contingent consideration	—	—	—	—	4	4
Balance, September 30, 2010	$—	$4,854	$928	$180	$361	$6,323

Other Intangible Assets

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

(Dollars in millions)	Core Deposit Intangibles	MSRs - LOCOM	MSRs - Fair Value	Other	Total
Balance, January 1, 2011	$67	$—	$1,439	$65	$1,571
Amortization	(23)	—	—	(11)	(34)
MSRs originated	—	—	183	—	183
Sale of MSRs	—	—	(7)	—	(7)
Changes in fair value:					
Due to changes in inputs and assumptions [1]	—	—	(443)	—	(443)
Other changes in fair value [2]	—	—	(139)	—	(139)
Other	—	—	—	7	7
Balance, September 30, 2011	$44	$—	$1,033	$61	$1,138
Balance, January 1, 2010	$104	$604	$936	$67	$1,711
Designated at fair value (transfers from amortized cost)	—	(604)	604	—	—
Amortization	(29)	—	—	(10)	(39)
MSRs originated	—	—	198	—	198
Changes in fair value:					
Due to fair value election	—	—	145	—	145
Due to changes in inputs and assumptions [1]	—	—	(643)	—	(643)
Other changes in fair value [2]	—	—	(168)	—	(168)

Balance, September 30, 2010	$75	$—	$1,072	$57	$1,204

[1] Primarily reflects changes in discount rates and prepayment speed assumptions, due to changes in interest rates.
[2] Represents changes due to the collection of expected cash flows, net of accretion, due to the passage of time.

Notes to Consolidated Financial Statements (Unaudited)-Continued

Mortgage Servicing Rights

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

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three months ended September 30, 2011 and 2010, was $91 million, and $99 million, respectively, and $277 million and $298 million for the nine months ended September 30, 2011 and 2010, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

As of September 30, 2011 and December 31, 2010, the total unpaid principal balance of mortgage loans serviced was $161.0 billion and $167.2 billion, respectively. Included in these amounts were $129.4 billion and $134.1 billion as of September 30, 2011 and December 31, 2010, respectively, of loans serviced for third parties. During the nine months ended September 30, 2011, the Company sold MSRs on residential loans with an unpaid principal balance of $1.7 billion. Because MSRs are reported at fair value, the sale did not have a material impact on mortgage servicing related income.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSRs as of September 30, 2011 and December 31, 2010, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are shown in the table below.

(Dollars in millions)	September 30, 2011		December 31, 2010	
Fair value of retained MSRs	$1,033		$1,439	
Prepayment rate assumption (annual)	18	%	12	%
Decline in fair value from 10% adverse change	$70		$50	
Decline in fair value from 20% adverse change	134		95	
Discount rate (annual)	11	%	12	%
Decline in fair value from 10% adverse change	$36		$68	
Decline in fair value from 20% adverse change	70		130	
Weighted-average life (in years)	4.4		6.2	
Weighted-average coupon	5.2	%	5.4	%

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the sensitivities above do not include the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSRs. See Note 11, "Derivative Financial Instruments," for further information regarding these hedging transactions.

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

Certain Transfers of Financial Assets and related Variable Interest Entities

The Company has transferred residential and commercial mortgage loans, student loans, commercial and corporate loans, and CDO securities in sale or securitization transactions in which the Company has, or had, continuing involvement. All such transfers have been accounted for as sales by the Company. The Company's continuing involvement in such transfers includes owning certain beneficial interests, including senior and subordinate debt instruments as well as equity interests, servicing or collateral manager responsibilities, and guarantee or recourse

arrangements. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. In accordance with the accounting guidance related to transfers of financial assets that became effective on January 1, 2010, upon completion of transfers of assets that satisfy the conditions to be reported as a sale, the Company derecognizes the transferred assets and recognizes at fair value any beneficial interests in the transferred financial assets such as trading assets or securities AFS as well as servicing rights retained and guarantee liabilities incurred. See Note 12, "Fair Value Election and Measurement," for further discussion of the Company's fair value methodologies.

Notes to Consolidated Financial Statements (Unaudited)-Continued

When evaluating transfers and other transactions with VIEs for consolidation, the Company first determines if it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in the transferred assets and, at times, servicing rights and collateral manager fees. If the Company has a VI in the entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE to determine if the Company should consolidate the VIE.
Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement.
Residential Mortgage Loans
The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights. The securities issued through these transactions are guaranteed by the issuer and, as such, under seller/servicer agreements the Company is required to service the loans in accordance with the issuers' servicing guidelines and standards. The Company sold residential mortgage loans to these entities, which resulted in pre-tax gains of $167 million and $220 million, including servicing rights, for the three months ended September 30, 2011 and 2010, respectively, and $285 million and $443 million for the nine months ended September 30, 2011 and 2010, respectively. These gains are included within mortgage production related income in the Consolidated Statements of Income. These gains include the change in value of the loans as a result of changes in interest rates from the time the related IRLCs were issued to the borrowers but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 11, "Derivative Financial Instruments," for further discussion of the Company's hedging activities. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs, which are discussed in Note 13, "Reinsurance Arrangements and Guarantees."
In a limited number of securitizations, the Company has transferred loans to trusts, which previously qualified as QSPEs, sponsored by the Company. These trusts issue securities which are ultimately supported by the loans in the underlying trusts. In these transactions, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The received securities are carried at fair value as either trading assets or securities AFS. As of September 30, 2011 and December 31, 2010, the fair value of securities received totaled $160 million and $193 million, respectively. At September 30, 2011, securities with a fair value of $143 million were valued using a third party pricing service. The remaining $17 million in securities consist of subordinate interests from a 2003 securitization of prime fixed and floating rate loans and were valued using a discounted cash flow model that uses historically derived prepayment rates and credit loss assumptions along with estimates of current market discount rates. The Company did not significantly modify the assumptions used to value these retained interests at September 30, 2011 from the assumptions used to value the interests at December 31, 2010. For both periods, analyses of the impact on the fair values of two adverse changes from the key assumptions were performed and the resulting amounts were insignificant for each key assumption and in the aggregate.
The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power. In almost all of its securitization transactions, the Company does not have power over the VIE as a result of these rights held by the master servicer. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. As of December 31, 2010, the Company determined that it was not the primary beneficiary of, and thus did not consolidate, any of these securitization entities. No events occurred during the nine months ended September 30, 2011 that would change the Company's previous conclusion that it is not the

primary beneficiary of any of these securitization entities. Total assets as of September 30, 2011 and December 31, 2010 of the unconsolidated trusts in which the Company has a VI are $554 million and $651 million, respectively. The Company's maximum exposure to loss related to the unconsolidated VIEs in which it holds a VI is comprised of the loss of value of any interests it retains and any repurchase obligations it incurs as a result of a breach of its representations and warranties.

Commercial and Corporate Loans
In 2007, the Company completed a $1.9 billion structured sale of corporate loans to multi-seller CP conduits, which are VIEs administered by unrelated third parties, from which it retained a 3% residual interest in the pool of loans transferred, which does not constitute a VI in the third party conduits as it relates to the unparticipated portion of the loans. In conjunction with the transfer of the loans, the Company also provided commitments in the form of liquidity facilities to these conduits. In January 2010, the administrator of the conduits drew on these commitments in full, resulting in a funded loan to the conduits that was recorded on the Company’s Consolidated Balance Sheets. During the first quarter of 2011, the Company exercised its clean up call rights on the structured participation and repurchased the remaining corporate loans. In conjunction with the clean up call, the outstanding amount of the liquidity facilities and the residual interest were paid off. The exercise of the clean up call was not material to the Company’s financial condition, results of operations, or cash flows.
The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the CLOs. In addition to retaining certain securities issued by the CLOs, the Company also acts as collateral manager for these CLOs. The securities retained by the Company and the fees received as collateral manager represent a VI in the CLOs, which are considered to be VIEs.
The Company determined that it was the primary beneficiary of, and thus, would consolidate one of these CLOs as it has both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. In addition to fees received as collateral manager, including eligibility for performance incentive fees, and owning certain preference shares, the Company’s multi-seller conduit, Three Pillars, owns a senior interest in the CLO, resulting in economics that could potentially be significant to the VIE. On January 1, 2010, the Company consolidated $307 million in total assets and $279 million in net liabilities of the CLO entity. The Company elected to consolidate the CLO at fair value and to carry the financial assets and financial liabilities of the CLO at fair value subsequent to adoption. The initial consolidation of the CLO had a negligible impact on the Company’s Consolidated Statements of Shareholders’ Equity. Substantially all of the assets and liabilities of the CLO are loans and issued debt, respectively. The loans are classified within LHFS at fair value and the debt is included within long-term debt at fair value on the Company’s Consolidated Balance Sheets (see Note 12, “Fair Value Election and Measurement,” for a discussion of the Company’s methodologies for estimating the fair values of these financial instruments). At September 30, 2011, the Company’s Consolidated Balance Sheets reflected $311 million of loans held by the CLO and $285 million of debt issued by the CLO. The Company is not obligated, contractually or otherwise, to provide financial support to this VIE nor has it previously provided support to this VIE. Further, creditors of the VIE have no recourse to the general credit of the Company, as the liabilities of the CLO are paid only to the extent of available cash flows from the CLO’s assets.
For the remaining CLOs, which are also considered to be VIEs, the Company has determined that it is not the primary beneficiary as it does not have an obligation to absorb losses or the right to receive benefits from the entities that could potentially be significant to the VIE. The Company was able to liquidate a number of its positions in these CLO preference shares during 2010. Its remaining preference share exposure was valued at $2 million as of September 30, 2011 and December 31, 2010. Upon liquidation of the preference shares, the Company’s only remaining involvement with these VIEs was through its collateral manager role. The Company receives fees for managing the assets of these vehicles; these fees are considered adequate compensation and are commensurate with the level of effort required to provide such services. The fees received by the Company from these entities are recorded as trust and investment management income in the Consolidated Statements of Income. Senior fees earned by the Company are generally not considered at risk; however, subordinate fees earned by the Company are subject to the availability of cash flows and to the priority of payments. The estimated assets and liabilities of these entities that were not included on the Company’s Consolidated Balance Sheets were $2.0 billion and $1.9 billion, respectively, at September 30, 2011, and $2.1 billion and $2.0 billion, respectively, at December 31, 2010. The Company is not obligated to provide any support to these entities, nor has it previously provided support to these entities. No events occurred during the nine months ended September 30, 2011 that would change the Company’s previous conclusion that it is not the primary

beneficiary of any of these securitization entities.

Student Loans

In 2006, the Company completed a securitization of government-guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the related residual interest in the SPE. The Company, as master servicer of the loans in the SPE, has agreed to service each loan consistent with the guidelines determined by the applicable government agencies in order to maintain the government guarantee. The Company and the SPE have entered into an agreement to have the loans subserviced by an unrelated third party.

Notes to Consolidated Financial Statements (Unaudited)-Continued

During the year ended December 31, 2010, the Company determined that this securitization of government-guaranteed student loans (the "Student Loan entity") should be consolidated. Accordingly, the Company consolidated the Student Loan entity at its unpaid principal amount as of September 30, 2010, resulting in incremental total assets and total liabilities of approximately $490 million and an immaterial impact on shareholders' equity. The consolidation of the Student Loan entity had no impact on the Company's earnings or cash flows that results from its involvement with this VIE. The primary balance sheet impacts from consolidating the Student Loan entity were increases in LHFI, the related ALLL, and long-term debt. Additionally, the Company's ownership of the residual interest in the SPE, previously classified in trading assets, was eliminated upon consolidation and the assets and liabilities of the Student Loan entity are recorded on a cost basis. At September 30, 2011 and December 31, 2010, the Company's Consolidated Balance Sheets reflected $448 million and $479 million, respectively, of assets held by the Student Loan entity and $443 million and $474 million, respectively, of debt issued by the Student Loan entity. Payments from the assets in the SPE must first be used to settle the obligations of the SPE, with any remaining payments remitted to the Company as the owner of the residual interest. To the extent that losses occur on the SPE's assets, the SPE has recourse to the federal government as the guarantor up to a maximum guarantee amount of 97%. Losses in excess of the government guarantee reduce the amount of available cash payable to Company as the owner of the residual interest. To the extent that losses result from a breach of the master servicer's servicing responsibilities, the SPE has recourse to the Company; the SPE may require the Company to repurchase the loan from the SPE at par value. If the breach was caused by the subservicer, the Company has recourse to seek reimbursement from the subservicer up to the guaranteed amount. The Company's maximum exposure to loss related to the SPE is represented by the potential losses resulting from a breach of servicing responsibilities. To date, all loss claims filed with the guarantor that have been denied due to servicing errors have either been cured or reimbursement has been provided to the Company by the subservicer. The Company is not obligated to provide any noncontractual support to this entity, and it has not provided any such support.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The majority of these transfers occurred between 2002 and 2005 with one transaction completed in 2007. The Company retained equity interests in certain of these entities and also holds certain senior interests that were acquired during 2008 in conjunction with its acquisition of assets from the ARS transactions discussed in Note 14, "Contingencies." The assumptions and inputs considered by the Company in valuing this retained interest include prepayment speeds, credit losses, and the discount rate. While all the underlying collateral is currently eligible for repayment by the obligor, given the nature of the collateral and the current repricing environment, the Company assumed no prepayment would occur before the final maturity, which is approximately 23 years on a weighted average basis. Due to the seniority of the interests in the structure, current estimates of credit losses in the underlying collateral could withstand a 20% adverse change in the default assumption without the securities incurring a valuation loss assuming all other assumptions remain constant. Therefore, the key assumption in valuing these securities was the assumed discount rate, which was estimated to range from 8% to 14% over LIBOR at September 30, 2011 compared to 14% to 16% over LIBOR at December 31, 2010. This significant change in the discount rate was supported by a return to liquidity in the market for similar interests. At September 30, 2011 and December 31, 2010, a 20% adverse change in the assumed discount rate results in declines of approximately $9 million and $5 million, respectively, in the fair value of these securities. Although the impact of each assumption change in isolation is minimal, the underlying collateral of the VIEs is highly concentrated and as a result, the default or deferral of certain large exposures may have a more dramatic effect on the discount rate than the 20% discussed above. Due to this, we estimate that each of the retained positions could experience a single deferral or default of an underlying collateral obligation that would result in a decline in valuation of the retained ARS ranging from $10 million to $20 million.

The Company is not obligated to provide any support to these entities and its maximum exposure to loss at September 30, 2011 and December 31, 2010 includes current senior interests held in trading securities, which had a fair value of $42 million as of September 30, 2011 and $29 million as of December 31, 2010. During the second quarter of 2011, the Company settled an ARS claim by purchasing additional ARS of the VIEs in July 2011. The total

assets of the trust preferred CDO entities in which the Company has remaining exposure to loss was $1.2 billion at September 30, 2011 and $1.3 billion at December 31, 2010. The Company determined that it was not the primary beneficiary of any of these VIEs as the Company lacks the power to direct the significant activities of any of the VIEs. No events occurred during the nine months ended September 30, 2011 that changed either the Company’s sale accounting or the Company’s conclusions that it is not the primary beneficiary of these VIEs.
The following tables present certain information related to the Company’s asset transfers in which it has continuing economic involvement for the three and nine months ended September 30:

Notes to Consolidated Financial Statements (Unaudited)-Continued

	Three Months Ended September 30, 2011				
(Dollars in millions)	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	$11	$—	$—	$—	$11
Servicing or management fees	1	2	—	—	3

	Three Months Ended September 30, 2010				
(Dollars in millions)	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	$14	$1	$5	$1	$21
Servicing or management fees	1	3	—	—	4

	Nine Months Ended September 30, 2011				
(Dollars in millions)	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	$39	$1	$—	$1	$41
Servicing or management fees	3	8	—	—	11

	Nine Months Ended September 30, 2010				
(Dollars in millions)	Residential Mortgage Loans	Commercial and Corporate Loans	Student Loans	CDO Securities	Total
Cash flows on interests held	$42	$3	$8	$1	$54
Servicing or management fees	3	10	—	—	13

Portfolio balances and delinquency balances based on accruing loans 90 days or more past due and all nonaccrual loans as of September 30, 2011 and December 31, 2010, and net charge-offs related to managed portfolio loans (both those that are owned or consolidated by the Company and those that have been transferred) for three and nine months ended September 30, 2011 and 2010 are as follows:

	Principal Balance		Past Due		Net Charge-offs			
					For the Three Months Ended September 30		For the Nine Months Ended September 30	
(Dollars in millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	2011	2010	2011	2010
Type of loan:								
Commercial	$54,705	$53,488	$1,272	$1,904	$185	$231	$520	$622
Residential	44,992	46,521	3,073	3,122	279	428	956	1,496
Consumer	17,778	15,966	718	649	28	31	92	115
Total loan portfolio	117,475	115,975	5,063	5,675	492	690	1,568	2,233
Managed securitized loans:								
Commercial	2,001	2,244	55	44	—	—	—	22
Residential	119,255	120,429	3,735 [1]	3,497 [1]	12	12	39	34
Total managed loans	$238,731	$238,648	$8,853	$9,216	$504	$702	$1,607	$2,289

[1]Excludes loans that have completed the foreclosure or short sale process (i.e., involuntary prepayments).

Servicing fees received by the Company were $87 million and $94 million during the three months ended September 30, 2011 and 2010, respectively, and $263 million and $280 million during the nine months ended September 30, 2011 and 2010, respectively.

Other Variable Interest Entities

In addition to the Company's involvement with certain VIEs related to transfers of financial assets, which is discussed above, the Company also has involvement with VIEs from other business activities.

Three Pillars Funding, LLC

SunTrust assists in providing liquidity to select corporate clients by directing them to a multi-seller CP conduit, Three Pillars. Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust's corporate clients by issuing CP.

The Company has determined that Three Pillars is a VIE as Three Pillars has not issued sufficient equity at risk. In accordance with the VIE consolidation guidance, the Company has determined that it is the primary beneficiary of Three Pillars as certain subsidiaries have both the power to direct its significant activities and own potentially significant VIs, as discussed further herein. The assets and liabilities of Three Pillars were consolidated by the Company at their unpaid principal amounts at January 1, 2010; upon consolidation, the Company recorded an allowance for loan losses on $1.7 billion of secured loans that were consolidated at that time, resulting in an immaterial transition adjustment, which was recorded in the Company's Consolidated Statements of Shareholders' Equity.

The Company's involvement with Three Pillars includes the following activities: services related to the administration of Three Pillars' activities and client referrals to Three Pillars; the issuing of letters of credit, which provide partial credit protection to the CP holders; and providing liquidity arrangements that would provide funding to Three Pillars in the event it can no longer issue CP or in certain other circumstances. The Company's activities with Three Pillars generated total revenue for the Company, net of direct salary and administrative costs, of $18 million and $20 million for the three months ended September 30, 2011 and 2010, respectively, and $50 million for the nine months ended September 30, 2011 and 2010.

At September 30, 2011 and December 31, 2010, the Company's Consolidated Balance Sheets reflected approximately $2.7 billion and $2.4 billion, respectively, of secured loans held by Three Pillars, which are included within commercial loans, and $58 million and $99 million, respectively, of CP issued by Three Pillars, excluding intercompany liabilities, which is included within other short-term borrowings; other assets and liabilities were de minimis to the Company's Consolidated Balance Sheets. No losses on any of Three Pillars' assets were incurred during the three and nine months ended September 30, 2011 and 2010.

Funding commitments extended by Three Pillars to its customers totaled $4.1 billion with outstanding receivables totaling $2.7 billion at September 30, 2011; the majority of which generally carry initial terms of one to three years and may be repaid or refinanced at any time. At December 31, 2010, Three Pillars had funding commitments and outstanding receivables totaling $4.1 billion and $2.4 billion, respectively. The majority of the commitments are backed by trade receivables and commercial loans that have been originated by companies operating across a number of industries. Trade receivables and commercial loans collateralize 40% and 21%, respectively, of the outstanding commitments, as of September 30, 2011, compared to 48% and 14%, respectively, as of December 31, 2010. Total assets supporting outstanding commitments have a weighted average life of 3.0 years and 2.3 years at September 30, 2011 and December 31, 2010, respectively.

Each transaction added to Three Pillars is typically structured to a minimum implied A/A2 rating according to established credit and underwriting policies as approved by credit risk management and monitored on a regular basis to ensure compliance with each transaction's terms and conditions. Typically, transactions contain dynamic credit enhancement features that provide increased credit protection in the event asset performance deteriorates. If asset performance deteriorates beyond predetermined covenant levels, the transaction could become ineligible for continued funding by Three Pillars. This could result in the transaction being amended with the approval of credit risk management, or Three Pillars could terminate the transaction and enforce any rights or remedies available, including amortization of the transaction or liquidation of the collateral. Three Pillars also has the option to fund under the liquidity facility provided by the Bank in connection with the transaction and may be required to fund under the liquidity facility if the transaction remains in breach. In addition, each commitment renewal requires credit risk

management approval. The Company is not aware of unfavorable trends related to Three Pillars' assets for which the Company expects to suffer material losses.

At September 30, 2011, Three Pillars' outstanding CP used to fund its assets had remaining weighted average lives of 2 days and maturities through November 10, 2011. The assets of Three Pillars generally provide the sources of cash flows for the CP. However, the Company has issued commitments in the form of liquidity facilities and other credit enhancements to support the operations of Three Pillars. Due to the Company's consolidation of Three Pillars as of January 1, 2010,

Notes to Consolidated Financial Statements (Unaudited)-Continued

these commitments are eliminated in consolidation for U.S. GAAP purposes. The liquidity commitments are revolving facilities that are sized based on the current commitments provided by Three Pillars to its customers. The liquidity facilities may generally be used if new CP cannot be issued by Three Pillars to repay maturing CP. However, the liquidity facilities are available in all circumstances, except certain bankruptcy-related events with respect to Three Pillars. Draws on the facilities are subject to the purchase price (or borrowing base) formula that, in many cases, excludes defaulted assets to the extent that they exceed available over-collateralization in the form of non-defaulted assets, and may also provide the liquidity banks with loss protection equal to a portion of the loss protection provided for in the related securitization agreement. Additionally, there are transaction specific covenants and triggers that are tied to the performance of the assets of the relevant seller/servicer that may result in a transaction termination event, which, if continuing, would require funding through the related liquidity facility. Finally, in a termination event of Three Pillars, such as if its tangible net worth falls below $5,000 for a period in excess of 15 days, Three Pillars would be unable to issue CP, which would likely result in funding through the liquidity facilities. Draws under the credit enhancement are also available in all circumstances, but are generally used to the extent required to make payment on any maturing CP if there are insufficient funds from collections of receivables or the use of liquidity facilities. The required amount of credit enhancement at Three Pillars will vary from time to time as new receivable pools are purchased or removed from its asset portfolio, but is generally equal to 10% of the aggregate commitments of Three Pillars.

Due to the consolidation of Three Pillars, the Company’s maximum exposure to potential loss was $4.2 billion as of September 30, 2011 and December 31, 2010, which represents the Company’s exposure to the lines of credit that Three Pillars had extended to its clients. The Company did not recognize any liability on its Consolidated Balance Sheets related to the liquidity facilities and other credit enhancements provided to Three Pillars as of September 30, 2011 or December 31, 2010, as no amounts had been drawn, nor were any draws probable to occur, such that a loss should have been accrued.

Total Return Swaps

The Company recommenced involvement with various VIEs related to its TRS business during 2010. Under the matched book TRS business model, the VIEs purchase assets (typically loans) from the market, which are identified by third party clients, that serve as the underlying reference assets for a TRS between the VIE and the Company and a mirror TRS between the Company and its third party clients. The TRS contracts between the VIEs and the Company hedge the Company’s exposure to the TRS contracts with its third party clients. These third parties are not related parties to the Company, nor are they and the Company de facto agents of each other. In order for the VIEs to purchase the reference assets, the Company provides senior financing, in the form of demand notes, to these VIEs. The TRS contracts pass through interest and other cash flows on the assets owned by the VIEs to the third parties, along with exposing the third parties to depreciation on the assets and providing them with the rights to appreciation on the assets. The terms of the TRS contracts require the third parties to post initial collateral, in addition to ongoing margin as the fair values of the underlying assets change. Although the Company has always caused the VIEs to purchase a reference asset in response to the addition of a reference asset by its third party clients, there is no legal obligation between the Company and its third party clients for the Company to purchase the reference assets or for the Company to cause the VIEs to purchase the assets.

The Company considered the VIE consolidation guidance, which requires an evaluation of the substantive contractual and non-contractual aspects of transactions involving VIEs established subsequent to January 1, 2010. The Company and its third party clients are the only VI holders. As such, the Company evaluated the nature of all VIs and other interests and involvement with the VIEs, in addition to the purpose and design of the VIEs, relative to the risks they were designed to create. The purpose and design of a VIE are key components of a consolidation analysis and any power should be analyzed based on the substance of that power relative to the purpose and design of the VIE. The VIEs were designed for the benefit of the third parties and would not exist if the Company did not enter into the TRS contracts with the third parties. The activities of the VIEs are restricted to buying and selling reference assets with respect to the TRS contracts entered into between the Company and its third party clients and the risks/benefits of any such assets owned by the VIEs are passed to the third party clients via the TRS contracts. The TRS contracts between

the Company and its third party clients have a substantive effect on the design of the overall transaction and the VIEs. Based on its evaluation, the Company has determined that it is not the primary beneficiary of the VIEs, as the design of the TRS business results in the Company having no substantive power to direct the significant activities of the VIEs.

At September 30, 2011 and December 31, 2010, the Company had $1.4 billion and $972 million, respectively, in senior financing outstanding to VIEs, which were classified within trading assets on the Consolidated Balance Sheets and carried at fair value. These VIEs had entered into TRS contracts with the Company with outstanding notional amounts of $1.4 billion and $969 million at September 30, 2011 and December 31, 2010, respectively, and the Company had entered into mirror TRS contracts with its third parties with the same outstanding notional amounts. At September 30, 2011, the fair values of these TRS assets and liabilities were $47 million and $44 million, respectively, and at December 31, 2010, the

fair values of these TRS assets and liabilities were $34 million and $32 million, respectively, reflecting the pass-through nature of these structures. The notional amounts of the TRS contracts with the VIEs represent the Company's maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with the third parties. The Company has not provided any support to the VIE that it was not contractually obligated to for the nine months ended September 30, 2011 or during the year ended December 31, 2010. For additional information on the Company's TRS with these VIEs, see Note 11, "Derivative Financial Instruments."

Community Development Investments

As part of its community reinvestment initiatives, the Company invests almost exclusively within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for various investments. The Company has determined that the related partnerships are VIEs. During 2011 and 2010, the Company did not provide any financial or other support to its consolidated or unconsolidated investments that it was not previously contractually required to provide.

For partnerships where the Company operates strictly as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. As of September 30, 2011 and December 31, 2010, total assets, which consist primarily of fixed assets and cash attributable to the consolidated partnerships, were $8 million, and total liabilities, excluding intercompany liabilities, were $1 million. Security deposits from the tenants are recorded as liabilities on the Company's Consolidated Balance Sheets. The Company maintains separate cash accounts to fund these liabilities and these assets are considered restricted. The tenant liabilities and corresponding restricted cash assets were de minimis as of September 30, 2011 and December 31, 2010. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During 2011 and 2010, the Company did not provide any significant amount of funding as the general partner or to cover any deficits the partnerships may have generated.

For other partnerships, the Company acts only in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships and accounts for its limited partner interests in accordance with the accounting guidance for investments in affordable housing projects. The general partner or an affiliate of the general partner provides guarantees to the limited partner, which protects the Company from losses attributable to operating deficits, construction deficits and tax credit allocation deficits. Partnership assets of $1.2 billion and $1.1 billion in these partnerships were not included in the Consolidated Balance Sheets at September 30, 2011 and December 31, 2010. These limited partner interests had carrying values of $199 million and $202 million at September 30, 2011 and December 31, 2010, respectively, and are recorded in other assets on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these limited partner investments totaled $446 million and $458 million at September 30, 2011 and December 31, 2010, respectively. The Company's maximum exposure to loss would be borne by the loss of the limited partnership equity investments along with $225 million and $222 million of loans issued by the Company to the limited partnerships at September 30, 2011 and December 31, 2010, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the partnerships upon the partnerships meeting certain conditions. When these conditions are met, the Company will invest these additional amounts in the partnerships.

When the Company owns both the limited partner and general partner interests or acts as the indemnifying party, the Company consolidates the partnerships. As of September 30, 2011 and December 31, 2010, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated, non-VIE partnerships were $379 million and $394 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were $110 million and $123 million, respectively. See Note 12, "Fair Value Election and Measurement," for further discussion on the impact of impairment charges on affordable housing partnership investments.

Registered and Unregistered Funds Advised by RidgeWorth

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

Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company has concluded that some of the Funds are VIEs. However, the Company has concluded that it is not the primary beneficiary of these funds as the Company does not absorb a majority of the expected losses nor expected returns of the funds. The Company's exposure to loss is limited to the investment advisor and other administrative fees it earns and if applicable, any equity investments. The total unconsolidated assets of these funds as of September 30, 2011 and December 31, 2010 were $1.1 billion and $1.9 billion, respectively.
The Company does not have any contractual obligation to provide monetary support to any of the Funds. The Company did not provide any significant support, contractual or otherwise, to the Funds during the nine months ended September 30, 2011 or during the year ended December 31, 2010.

NOTE 7 – NET INCOME/(LOSS) PER COMMON SHARE
Equivalent shares of 27 million and 32 million related to common stock options and common stock warrants outstanding as of September 30, 2011 and 2010, respectively, were excluded from the computations of diluted income/(loss) per average common share because they would have been anti-dilutive. Further, for EPS calculation purposes, during the nine months ended September 30, 2010, the impact of dilutive securities was excluded from the diluted share count because the Company recognized a net loss available to common shareholders and the impact would have been anti-dilutive.
A reconciliation of the difference between average basic common shares outstanding and average diluted common shares outstanding for the three and nine months ended September 30, 2011 and 2010 is included below. Additionally, included below is a reconciliation of net income to net income/(loss) available to common shareholders.

	Three Months Ended September 30		Nine Months Ended September 30	
(In millions, except per share data)	2011	2010	2011	2010
Net income	$215	$153	$573	$5
Series A preferred dividends	(2)	(2)	(5)	(6)
Dividends and accretion of discount on U.S. Treasury preferred stock	—	(67)	(66)	(200)
Accelerated accretion for repurchase of U.S. Treasury preferred stock	—	—	(74)	—
Dividends and undistributed earnings allocated to unvested shares	(2)	—	(4)	—
Net income/(loss) available to common shareholders	$211	$84	$424	($201)
Average basic common shares	532	496	521	495
Effect of dilutive securities:				
Stock options	1	1	2	1
Restricted stock	2	2	2	2
Average diluted common shares	535	499	525	498
Net income/(loss) per average common share - diluted	$0.39	$0.17	$0.81	($0.41)
Net income/(loss) per average common share - basic	$0.40	$0.17	$0.81	($0.41)

NOTE 8 – LONG-TERM DEBT AND CAPITAL
In March 2011, the Federal Reserve completed its review of the Company's capital plan in connection with the CCAR. Upon completion of the review, the Federal Reserve did not object to the Company's capital plan as originally submitted in January 2011. As a result, during the first quarter of 2011, the Company completed a $1.0 billion common stock offering and a $1.0 billion senior debt offering, which pays 3.60% interest and is due in 2016. On March 30, 2011, the Company used the proceeds from these offerings as well as from other available funds to repurchase $3.5 billion of Fixed Rate Cumulative Preferred Stock, Series C, and $1.4 billion of Fixed Rate Cumulative Preferred Stock, Series D, that was issued to the U.S. Treasury under the TARP's CPP. As a result of the repurchase of Series C and D Preferred Stock, the Company, incurred a one-time non-cash charge to net income

available to common shareholders of $74 million, related to accelerating the outstanding discount accretion on the Series C and D Preferred Stock. In September 2011, the U.S. Treasury auctioned a total of 17.9 million of the Company's warrants to purchase 11.9 million shares of SunTrust common stock at an exercise price of $44.15 per share (Series B warrants) and 6 million shares of SunTrust common stock at an exercise price of $33.70 per share (Series A warrants). The warrants were issued by

32

Notes to Consolidated Financial Statements (Unaudited)-Continued

SunTrust to the U.S. Treasury in connection with its investment in SunTrust Banks, Inc. under the CPP and have expiration dates of November 2018 (Series B) and December 2018 (Series A). In conjunction with the U.S. Treasury's auction, the Company acquired 4 million of the Series A warrants for $11 million.
The Company's long-term debt decreased from $13.6 billion at December 31, 2010 to $13.5 billion at September 30, 2011. The change was primarily as a result of the $1 billion senior debt offering described above, offset by $852 million subordinated debt that matured in the second quarter of 2011 and the repurchase of $320 million of fixed rate senior and junior subordinated notes that were due in 2011 and 2036.
The Company's common equity increased by $1.8 billion, primarily as a result of net income, the common stock offering, and an increase in AOCI due to higher unrealized gains primarily related to securities and derivatives. Conversely, Consolidated Shareholders' Equity decreased by $2.9 billion from December 31, 2010 primarily as a result of the repurchase of the Series C and D Preferred Stock, partially offset by the new common share issuance. The Company's capital ratios as of September 30, 2011 and December 31, 2010 are noted below.

	September 30, 2011			December 31, 2010		
(Dollars in millions)	Amount	Ratio		Amount	Ratio	
SunTrust Banks, Inc.						
Tier 1 common	$12,188	9.31	%	$10,737	8.08	%
Tier 1 capital	14,531	11.10		18,156	13.67	
Total capital	18,211	13.91		21,967	16.54	
Tier 1 leverage		8.90			10.94	
SunTrust Bank						
Tier 1 capital	$13,873	10.75	%	$13,120	10.05	%
Total capital	17,048	13.21		16,424	12.58	
Tier 1 leverage		8.74			8.33	

NOTE 9 - INCOME TAXES
The provision for income taxes was $45 million and $14 million for the three months ended September 30, 2011 and 2010, respectively, representing effective tax rates of 17.3% and 8.3%, respectively, during those periods. The provision for income taxes was $136 million and a benefit of $230 million for the nine months ended September 30, 2011 and 2010, respectively, representing effective tax rates of 19.2% and (102.1)%, respectively, during those periods. The Company calculated income taxes for the three and nine months ended September 30, 2011 and 2010 based on actual year-to-date results.
As of September 30, 2011, the Company's gross cumulative income tax on UTBs amounted to $99 million, of which $67 million (net of federal tax benefit) would affect the Company's effective tax rate, if recognized. As of December 31, 2010, the Company's gross cumulative income tax on UTBs amounted to $102 million. Additionally, the Company had a gross liability of $21 million for interest related to its UTBs as of September 30, 2011 and December 31, 2010. Interest recognized related to UTBs was an expense of approximately $1 million for both the three and nine months ended September 30, 2011, compared to an expense of approximately $2 million and income of less than $1 million for the three and nine months ended September 30, 2010, respectively. The Company continually evaluates the UTBs associated with its uncertain tax positions. It is reasonably possible that the total amount of income tax on UTBs could decrease during the next 12 months by up to $10 million due to completion of tax authority examinations and the expiration of statutes of limitations.
The Company files consolidated and separate income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. As of September 30, 2011, the Company's federal returns through 2006 have been examined by the IRS and all issues have been resolved. The Company's 2007 through 2009 federal income tax returns are currently under examination by the IRS. Generally, the state jurisdictions in which the Company files income tax returns are subject to examination for a period from three to seven years after returns are filed.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company sponsors various short-term incentive and LTI plans for eligible employees. The Company delivers LTIs through various incentive programs, including stock options, restricted stock, LTI cash, and salary shares. Compensation expense related to LTI cash was $9 million and $8 million for the three months ended September 30, 2011 and 2010, respectively, and $27 million and $22 million for the nine months ended September 30, 2011 and 2010, respectively.

TARP prohibited the payment of any bonus, incentive compensation or stock option award to our five NEOs and certain other highly compensated executives. As a result, until TARP repayment, SunTrust continued the use of salary shares in 2011 as defined in the U.S. Treasury's Interim Final Rule on TARP Standards for Compensation and Corporate Governance. Specifically, the Company paid additional base salary amounts in the form of stock (salary shares) to the senior executive officers and some of the other employees who were among the next 20 most highly-compensated employees. The Company did this each pay period in the form of stock units under the SunTrust Banks, Inc. 2009 Stock Plan. The stock units did not include any rights to receive dividends or dividend equivalents. As required by The Emergency Economic Stabilization Act of 2008, each salary share was non-forfeitable upon grant but may not be sold or transferred until the expiration of a holding period (except as necessary to satisfy applicable withholding taxes). As a result, these individuals are at risk for the value of our stock price until the stock unit is settled. The stock units are settled in cash; for the 2010 salary shares, one half was settled on March 31, 2011 and one half will be settled on March 31, 2012, unless settled earlier due to the executive's death. The 2011 salary shares were settled on the date of TARP repayment on March 30, 2011. The amount to be paid on settlement of the stock units will be equal to the value of a share of SunTrust common stock on the settlement date. Benefit plan determinations and limits were established to ensure that the salary shares were accounted for equitably within relevant benefit plans. As of September 30, 2011, the accrual related to salary shares was $3 million.

Following the repayment by SunTrust of the U.S. Treasury's TARP investment in the Company, the Compensation Committee of the Board approved a revised compensation structure for the Company's NEOs. Effective April 1, 2011, the compensation structure includes an annual incentive opportunity under the Company's existing Management Incentive Plan. A new LTI arrangement was also implemented. The design of the LTI plan delivers 50% restricted stock units with vesting tied to the Company's total shareholder return relative to a peer group consisting of the banks which comprise the KBW Bank Sector Index. The remaining 50% of the LTI plan will consist of approximately half restricted stock units, the vesting of which is tied to the achievement of a Tier 1 capital ratio target, and the other half in stock options.

Stock-Based Compensation

The Company granted 813,265 shares of stock options, 1,375,406 shares of restricted stock and 344,590 restricted stock units during the first nine months of 2011. The weighted average prices of these grants were $29.70, $31.44 and $37.57, respectively. The fair value of options granted during the first nine months of 2011 and 2010 were $10.51 and $12.78 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Nine Months Ended September 30			
	2011		2010	
Dividend yield	0.75	%	0.17	%
Expected stock price volatility	34.87		56.09	
Risk-free interest rate (weighted average)	2.48		2.80	
Expected life of options	6 years		6 years	

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2011	2010	2011	2010
Stock-based compensation expense:				
Stock options	$4	$4	$11	$11
Restricted stock	8	9	25	31
Restricted stock units	1	—	9	—
Total stock-based compensation expense	$13	$13	$45	$42

The recognized stock-based compensation tax benefit amounted to $5 million for both of the three months ended September 30, 2011 and 2010. For the nine months ended September 30, 2011 and 2010, the recognized stock-based compensation tax benefit was $17 million and $16 million, respectively.

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans ("Retirement Benefits Plans") in the first nine months of 2011. The expected long-term rate of return on plan assets for the Retirement Benefit Plans is 7.75% for 2011.

Anticipated employer contributions/benefit payments for 2011 are $8 million for the SERP. For the three and nine months ended September 30, 2011, the actual contributions/benefit payments were $1 million and $6 million, respectively.

SunTrust contributed less than $1 million to the Postretirement Welfare Plan in the third quarter of 2011. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2011 in the amount of $3 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare Plan is 6.75% for 2011.

	Three Months Ended September 30			
	2011		2010	
(Dollars in millions)	Retirement Benefits Plans	Other Postretirement Benefits	Retirement Benefits Plans	Other Postretirement Benefits
Service cost	$18	$—	$17	$—
Interest cost	32	3	33	3
Expected return on plan assets	(47)	(2)	(46)	(2)
Amortization of prior service cost	(5)	—	(3)	—
Recognized net actuarial loss	11	—	16	—
Net periodic benefit cost	$9	$1	$17	$1

	Nine Months Ended September 30			
	2011		2010	
(Dollars in millions)	Retirement Benefits Plans	Other Postretirement Benefits	Retirement Benefits Plans	Other Postretirement Benefits
Service cost	$53	$—	$52	$—
Interest cost	97	7	97	7
Expected return on plan assets	(142)	(6)	(137)	(6)
Amortization of prior service cost	(14)	—	(9)	—
Recognized net actuarial loss	32	1	46	1
Net periodic benefit cost	$26	$2	$49	$2

NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS

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

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. The Company minimizes the credit risk of derivatives by entering into transactions with high credit-quality counterparties with defined exposure limits that are reviewed periodically by the Company's Credit Risk

35

Notes to Consolidated Financial Statements (Unaudited)-Continued

Management division. The Company's derivatives may also be governed by an ISDA and depending on the nature of the derivative, bilateral collateral agreements are typically in place as well. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legally enforceable master netting agreement with that counterparty, the Company considers its exposure to the counterparty to be the net market value of all positions with that counterparty, if such net value is an asset to the Company, and zero, if such net value is a liability to the Company. As of September 30, 2011, net derivative asset positions to which the Company was exposed to risk of its counterparties were $2.5 billion, representing the net of $3.9 billion in net derivative gains, offset by counterparty where formal netting arrangements exist, adjusted for collateral of $1.4 billion that the Company holds in relation to these gain positions. As of December 31, 2010, net derivative asset positions to which the Company was exposed to risk of its counterparties were $1.6 billion, representing the net of $2.8 billion in net derivative gains by counterparty, offset by counterparty where formal netting arrangements exist, adjusted for collateral of $1.2 billion that the Company holds in relation to these gain positions.

Derivatives also expose the Company to market risk. Market risk is the adverse effect that a change in market factors, such as interest rates, currency rates, equity prices, or implied volatility, has on the value of a derivative. The Company manages the market risk associated with its derivatives by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company continually measures this risk using a VAR methodology. 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 recognize. 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 loss given default estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. Additionally, counterparty exposure is evaluated by offsetting positions that are subject to master netting arrangements, as well as, considering the amount of marketable collateral securing the position. All counterparties are explicitly approved, as are defined exposure limits. Counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach is also used by the Company to estimate its own credit risk on derivative liability positions. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately $46 million and $33 million as of September 30, 2011 and December 31, 2010 respectively.

The majority of the Company's derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies, which are contained in industry standard master trading agreements, may be considered events of default. Should the Bank be in default under any of these provisions, the Bank's counterparties would be permitted under such master agreements to close-out net at amounts that would approximate the then-fair values of the derivatives and the offsetting of the amounts would produce a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. Additionally, certain of the Company's derivative liability positions, totaling $1.2 billion and $1.1 billion in fair value at September 30, 2011 and December 31, 2010, respectively, contain provisions conditioned on downgrades of the Bank's credit rating. These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral. Collateral posting requirements generally result from differences in the fair value of the net derivative liability compared to specified collateral thresholds at different ratings levels of the Bank, both of which are negotiated provisions within each CSA. At September 30, 2011, 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 $17 million in fair value liabilities as of September 30, 2011. For illustrative purposes, if the Bank were further downgraded to Baa3/BBB-, ATEs would be triggered in derivative liability contracts that had a total fair value of $5

million at September 30, 2011, against which the Bank had posted collateral of $3 million; ATEs do not exist at lower ratings levels. At September 30, 2011, $1.1 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $1.1 billion in collateral, primarily in the form of cash. If requested by the counterparty pursuant to the terms of the CSA, the Bank would be required to post estimated additional collateral against these contracts at September 30, 2011 of $16 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 $10 million. Such collateral posting amounts may be more or less than the Bank's estimates based on the specified terms of each CSA as to the timing of a collateral calculation and whether the Bank and its counterparties differ on their estimates of the fair values of the derivatives or collateral.

Notional and Fair Value of Derivative Positions

The following tables present the Company's derivative positions at September 30, 2011 and December 31, 2010. The notional amounts in the tables are presented on a gross basis and have been classified within Asset Derivatives or Liability Derivatives based on the estimated fair value of the individual contract at September 30, 2011 and December 31, 2010. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements. For contracts constituting a combination of options that contain a written option and a purchased option (such as a collar), the notional amount of each option is presented separately, with the purchased notional amount generally being presented as an Asset Derivative and the written notional amount being presented as a Liability Derivative. The fair value of a combination of options is generally presented as a single value with the purchased notional amount if the combined fair value is positive, and with the written notional amount, if the combined fair value is negative.

Notes to Consolidated Financial Statements (Unaudited)-Continued

	As of September 30, 2011[8]					
	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships [1]						
Equity contracts hedging:						
Securities AFS	Trading assets	$1,547	$—	Trading liabilities	$1,547	$146
Interest rate contracts hedging:						
Floating rate loans	Trading assets	15,850	1,133	Trading liabilities	—	—
Total		17,397	1,133		1,547	146
Derivatives designated in fair value hedging relationships [2]						
Interest rate contracts hedging:						
Fixed rate debt	Trading assets	1,000	59	Trading liabilities	—	—
Total		1,000	59		—	—
Derivatives not designated as hedging instruments [3]						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	437	21	Trading liabilities	60	10
MSRs	Other assets	11,633	476	Other liabilities	9,860	46
LHFS, IRLCs, LHFI-FV	Other assets	2,856 [4]	17	Other liabilities	5,354 [4]	43
Trading activity	Trading assets	118,738 [5]	6,259	Trading liabilities	98,866	5,831
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans	Trading assets	1,088	19	Trading liabilities	496	125
Trading activity	Trading assets	4,297	239	Trading liabilities	4,184	229
Credit contracts covering:						
Loans	Trading assets	50	1	Trading liabilities	192	2
Trading activity	Trading assets	1,775 [6]	59	Trading liabilities	1,538 [6]	50
Equity contracts - Trading activity	Trading assets	7,924 [5]	853	Trading liabilities	9,504	876
Other contracts:						
IRLCs and other	Other assets	4,993	79	Other liabilities	279 [7]	16 [7]
Trading activity	Trading assets	196	22	Trading liabilities	190	22
Total		153,987	8,045		130,523	7,250
Total derivatives		$172,384	$9,237		$132,070	$7,396

[1] See “Cash Flow Hedges” in this Note for further discussion.
[2] See “Fair Value Hedges” in this Note for further discussion.
[3] See “Economic Hedging and Trading Activities” in this Note for further discussion.
[4] Amounts include $365 million and $665 million of notional amounts related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recognized.
[5] Amounts include $19.3 billion and $428 million of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recognized.

[6] Asset and liability amounts include $1 million and $6 million, respectively, of notional from purchased and written credit risk participation agreements, respectively, which notional is calculated as the notional of the derivative participated adjusted by the relevant risk weighted assets conversion factor.
[7] Includes a $16 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 Visa Class B common stock to Visa Class A common stock, and the Visa Class A common stock price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Visa Class B shares in the second quarter of 2009 as discussed in Note 18, “Reinsurance Arrangements and Guarantees,” to the Consolidated Financial Statements in the Company’s 2010 Annual Report on Form 10-K.
[8]As of July 1, 2011, the Company began offsetting cash collateral paid to and received from derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements and meet the derivatives accounting requirements of ASC 815-10, "Derivatives and Hedging." The effects of offsetting on the Company's Consolidated Balance Sheets as of September 30, 2011 are presented in Note 12, "Fair Value Election and Measurement."

Notes to Consolidated Financial Statements (Unaudited)-Continued

	As of December 31, 2010					
	Asset Derivatives			Liability Derivatives		
(Dollars in millions)	Balance Sheet Classification	Notional Amounts	Fair Value	Balance Sheet Classification	Notional Amounts	Fair Value
Derivatives designated in cash flow hedging relationships [1]						
Equity contracts hedging:						
Securities AFS	Trading assets	$1,547	$—	Trading liabilities	$1,547	$145
Interest rate contracts hedging:						
Floating rate loans	Trading assets	15,350	947	Trading liabilities	500	10
Total		16,897	947		2,047	155
Derivatives not designated as hedging instruments [2]						
Interest rate contracts covering:						
Fixed rate debt	Trading assets	1,273	41	Trading liabilities	60	4
Corporate bonds and loans		—	—	Trading liabilities	5	—
MSRs	Other assets	20,474	152	Other liabilities	6,480	73
LHFS, IRLCs, LHFI-FV	Other assets	7,269 [3]	92	Other liabilities	2,383	20
Trading activity	Trading assets	132,286 [4]	4,211	Trading liabilities	105,926	3,884
Foreign exchange rate contracts covering:						
Foreign-denominated debt and commercial loans	Trading assets	1,083	17	Trading liabilities	495	128
Trading activity	Trading assets	2,691	92	Trading liabilities	2,818	91
Credit contracts covering:						
Loans	Trading assets	15	—	Trading liabilities	227	2
Trading activity	Trading assets	1,094 [5]	39	Trading liabilities	1,039 [5]	34
Equity contracts - Trading activity	Trading assets	5,010 [4]	583	Trading liabilities	8,012	730
Other contracts:						
IRLCs and other	Other assets	2,169	18	Other liabilities	2,196 [6]	42 [6]
Trading activity	Trading assets	111	11	Trading liabilities	111	11
Total		173,475	5,256		129,752	5,019
Total derivatives		$190,372	$6,203		$131,799	$5,174

[1] See “Cash Flow Hedges” in this Note for further discussion.
[2] See “Economic Hedging and Trading Activities” in this Note for further discussion.
[3] Amount includes $1.4 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily and therefore no derivative asset or liability is recognized.
[4] Amounts include $25.0 billion and $0.5 billion of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily and therefore no derivative asset or liability is recognized.
[5] Asset and liability amounts include $1 million and $8 million, respectively, of notional from purchased and written interest rate swap risk participation agreements, respectively, which notional is calculated as the notional of the interest rate swap participated adjusted by the relevant risk weighted assets conversion factor.
[6] Includes a $23 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 Visa Class B common stock to Visa Class A common stock, and the Visa Class A common stock price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Visa Class B shares in the second quarter of 2009 as discussed in Note 18, “Reinsurance Arrangements and Guarantees,” to

the Consolidated Financial Statements in the Company's 2010 Annual Report on Form 10-K.

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

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 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, for both economic hedges and those instruments designated in formal, qualifying hedging relationships.

Notes to Consolidated Financial Statements (Unaudited)-Continued

	Three Months Ended September 30, 2011		
(Dollars in millions)	Amount of pre-tax gain 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) [1]
Derivatives in cash flow hedging relationships			
Equity contracts hedging Securities AFS	$8		$—
Interest rate contracts hedging Floating rate loans	438	Interest and fees on loans	103
Total	$446		$103

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

[1] During the three and nine months ended September 30, 2011, the Company reclassified $56 million and $146 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.

	Three Months Ended September 30, 2011		
(Dollars in millions)	Amount of gain on Derivatives recognized in Income	Amount of loss on related Hedged Items recognized in Income	Amount of gain/(loss) recognized in Income on Hedges (Ineffective Portion)
Derivatives in fair value hedging relationships			
Interest rate contracts hedging Fixed rate debt [1]	$35	($35)	$—

	Nine Months Ended September 30, 2011		
(Dollars in millions)	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 [1]	$49	($50)	($1)

[1] Amounts are recognized in trading account profits/(losses) and commissions in the Consolidated Statements of Income.

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2010 are presented below.

(Dollars in millions)	Three Months Ended September 30, 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) [1]
Derivatives in cash flow hedging relationships			
Equity contracts hedging Securities AFS	($125)		$—
Interest rate contracts hedging Floating rate loans	380	Interest and fees on loans	119
Total	$255		$119

(Dollars in millions)	Nine Months Ended September 30, 2010 Amount of pre-tax gain 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) [1]
Derivatives in cash flow hedging relationships			
Equity contracts hedging Securities AFS	$42		$—
Interest rate contracts hedging Floating rate loans	1,115	Interest and fees on loans	370
Total	$1,157		$370

[1] During the three and nine months ended September 30, 2010, the Company reclassified $35 million and $88 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.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Classification of gain/(loss) recognized in Income on Derivatives	Amount of gain/(loss) recognized in Income on Derivatives for the Three Months Ended September 30, 2010	Amount of gain/(loss) recognized in Income on Derivatives for the Nine Months Ended September 30, 2010
Derivatives not designated as hedging instruments			
Interest rate contracts covering:			
Fixed rate debt	Trading account profits/(losses) and commissions	($194)	($68)
Corporate bonds and loans	Trading account profits/(losses) and commissions	—	(1)
MSRs	Mortgage servicing related income	315	783
LHFS, IRLCs, LHFI-FV	Mortgage production related income	(82)	(292)
Trading activity	Trading account profits/(losses) and commissions	256	285
Foreign exchange rate contracts covering:			
Foreign-denominated debt and commercial loans	Trading account profits/(losses) and commissions	133	(69)
Trading activity	Trading account profits/(losses) and commissions	(20)	5
Credit contracts covering:			
Loans	Trading account profits/(losses) and commissions	(1)	—
Trading activity	Trading account profits/(losses) and commissions	2	6
Equity contracts - trading activity	Trading account profits/(losses) and commissions	(62)	(56)
Other contracts:			
IRLCs	Mortgage production related income	164	375
Total		$511	$968

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 account profits/(losses) and commissions in the Consolidated Statements of Income.

The Company writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either net cash settle or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. As of September 30, 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 agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at September 30, 2011, the Company did not have any significant risk of making a non-recoverable payment on any written CDS. During 2011 and 2010, the only instances of default on written CDS were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS. At September 30, 2011, the written CDS had remaining terms ranging from one year to ten years. The maximum guarantees outstanding at September 30, 2011 and December 31, 2010, as measured by the gross notional amounts of written CDS, were $177 million and $99 million, respectively. At September 30, 2011 and December 31, 2010, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were $372 million and $87 million, respectively. The fair values of written CDS were $3 million at both September 30, 2011 and December 31, 2010, and the fair values of purchased CDS were $9 million and less than $1 million at September 30, 2011 and December 31, 2010.

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

Notes to Consolidated Financial Statements (Unaudited)-Continued

any time due to unforeseen circumstances. To date, no material losses have been incurred related to the Company's written risk participations. At September 30, 2011, the remaining terms on these risk participations generally ranged from one month to seven years, with a weighted average on the maximum estimated exposure of 3.4 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 $67 million and $74 million at September 30, 2011 and December 31, 2010, respectively. The fair values of the written risk participations were de minimis at September 30, 2011 and December 31, 2010. As part of its trading activities, the Company may enter into purchased risk participations, but such activity is not matched, as discussed herein related to CDS or TRS.
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 deteriorate. At September 30, 2011 and December 31, 2010, there were $1.4 billion and $969 million of outstanding and offsetting TRS notional balances, respectively. The fair values of the TRS derivative assets and liabilities at September 30, 2011 were $47 million and $44 million, respectively, and related collateral held at September 30, 2011 was $318 million. The fair values of the TRS derivative assets and liabilities at December 31, 2010 were $34 million and $32 million, respectively, and related collateral held at December 31, 2010 was $268 million.

Cash Flow Hedges
The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company may employ various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management's assessment of future interest rates, as well as other factors. At September 30, 2011, the Company's outstanding interest rate hedging relationships include interest rate swaps that have been designated as cash flow hedges of probable forecasted transactions related to recognized floating rate loans.
Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. At September 30, 2011, the maximum range of hedge maturities for hedges of floating rate loans is two to six years, with the weighted average being 3.6 years. Ineffectiveness on these hedges was de minimis during the nine months ended September 30, 2011 and 2010. As of September 30, 2011, $337 million, net of tax, of the deferred net gains on derivatives that are recognized in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income on these hedged items.
During the third quarter of 2008, the Company executed The Agreements on 30 million common shares of Coke. A consolidated subsidiary of SunTrust owns 22.9 million Coke common shares and a consolidated subsidiary of the Bank owns 7.1 million Coke common shares. These two subsidiaries entered into separate derivative contracts on their respective holdings of Coke common shares with a large, unaffiliated financial institution (the "Counterparty"). Execution of The Agreements (including the pledges of the Coke common shares pursuant to the terms of The Agreements) did not constitute a sale of the Coke common shares under U.S. GAAP for several reasons, including that ownership of the common shares was not legally transferred to the Counterparty. The Agreements were zero-cost equity collars at inception, which caused the Agreements to be derivatives in their entirety. The Company has designated The Agreements as cash flow hedges of the Company's probable forecasted sales of its Coke common shares, which are expected to occur between 6.5 years and 7 years from The Agreements' effective date, for overall price volatility below the strike prices on the floor (purchased put) and above the strike prices on the ceiling (written call). Although the Company is not required to deliver its Coke common shares under The Agreements, the Company has asserted that it is probable that it will sell all of its Coke common shares at or around the settlement date of The

Agreements. The Federal Reserve's approval for Tier 1 capital treatment was significantly based on this expected disposition of the Coke common shares under The Agreements or in another market transaction. Both the sale and the timing of such sale remain probable to occur as designated. At least quarterly, the Company assesses hedge effectiveness and measures 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 account profits/(losses) and commissions. None of the components of The Agreements' fair values are excluded from the Company's assessments of hedge effectiveness. Potential sources of ineffectiveness include changes in market dividends and certain early termination provisions. The Company recognized ineffectiveness gains of $1 million and $9 million during the nine months ended September 30, 2011 and 2010, respectively. Ineffectiveness gains were recognized in trading account profits/(losses) and commissions. Other than potential measured hedge ineffectiveness, no amounts are expected to be reclassified from AOCI over the next twelve months and any remaining amounts recognized in AOCI will be reclassified to earnings when the probable forecasted sales of the Coke common shares occur.

Notes to Consolidated Financial Statements (Unaudited)-Continued

Fair Value Hedges

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

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, mortgage LHFS, and mortgage LHFI reported at fair value.
- The Company is exposed to foreign exchange rate risk associated with certain senior notes denominated in euros and pound sterling. This risk is economically hedged with cross currency swaps, which receive either euros or pound sterling and pay U.S. dollars. 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 account profits/(losses) and commissions.
- The Company enters into CDS to hedge credit risk associated with certain loans held within its CIB line of business.
- Trading activity, as illustrated in the tables within this footnote, primarily includes interest rate swaps, equity derivatives, CDS, futures, options and foreign currency contracts. These derivatives are entered into in a dealer capacity to facilitate client transactions or are utilized as a risk management tool by the Company as an end user in certain macro-hedging strategies. The macro-hedging strategies are focused on managing the Company's overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

Notes to Consolidated Financial Statements (Unaudited)-Continued

NOTE 12 - FAIR VALUE ELECTION AND MEASUREMENT

The Company carries certain assets and liabilities at fair value on a recurring basis and appropriately classifies them as level 1, 2, or 3 within the fair value hierarchy. The Company's recurring fair value measurements are based on a requirement to carry such assets and liabilities at fair value or the Company's election to carry certain financial assets and financial 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 LHFI and LHFS, MSRs, certain brokered 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 financial 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.

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

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.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Assets/Liabilities	Fair Value Measurements at September 30, 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	$209	$209	$—	$—
Federal agency securities	612	—	612	—
U.S. states and political subdivisions	77	—	77	—
MBS - agency	509	—	509	—
MBS - private	1	—	—	1
CDO/CLO securities	44	—	2	42
ABS	37	—	32	5
Corporate and other debt securities	445	—	445	—
CP	78	—	78	—
Equity securities	85	—	78	7
Derivative contracts	3,693	279	3,414	—
Trading loans	1,686	—	1,686	—
Gross trading assets	7,476	488	6,933	55
Offsetting collateral [1]	(1,188)			
Total trading assets	6,288			
Securities AFS				
U.S. Treasury securities	386	386	—	—
Federal agency securities	2,645	—	2,645	—
U.S. states and political subdivisions	490	—	428	62
MBS - agency	20,030	—	20,030	—
MBS - private	287	—	—	287
CDO/CLO securities	332	—	332	—
ABS	540	—	524	16
Corporate and other debt securities	54	—	49	5
Coke common stock	2,027	2,027	—	—
Other equity securities [2]	711	—	148	563
Total securities AFS	27,502	2,413	24,156	933
LHFS				
Residential loans	1,364	—	1,362	2
Corporate and other loans	311	—	311	—
Total LHFS	1,675	—	1,673	2
LHFI	452	—	—	452
MSRs	1,033	—	—	1,033
Other assets [3]	550	4	467	79
Liabilities				
Trading liabilities				
U.S. Treasury securities	326	326	—	—

MBS - agency	1	—	1	—
Corporate and other debt securities	211	—	211	—
Equity securities	14	14	—	—
Derivative contracts	2,319	206	1,967	146
Gross trading liabilities	2,871	546	2,179	146
Offsetting collateral [1]	(1,136)			
Total trading liabilities	1,735			
Brokered deposits	1,056	—	1,056	—
Long-term debt	2,016	—	2,016	—
Other liabilities [3]	84	—	68	16

[1] Amount represents the cash collateral received from or deposited with derivative counterparties. Amount is offset with derivatives in the Consolidated Balance Sheets as of September 30, 2011.
[2]Includes at cost, $171 million of FHLB of Atlanta stock, $391 million of Federal Reserve Bank stock, and $148 million in mutual fund investments.
[3]These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk along with a derivative associated with the Company's sale of Visa shares during the year ended December 31, 2009.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Assets/Liabilities	Fair Value Measurements at December 31, 2010 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	$187	$187	$—	$—
Federal agency securities	361	—	361	—
U.S. states and political subdivisions	123	—	123	—
MBS - agency	301	—	301	—
MBS - private	15	—	9	6
CDO/CLO securities	55	—	2	53
ABS	59	—	32	27
Corporate and other debt securities	743	—	743	—
CP	14	—	14	—
Equity securities	221	—	98	123
Derivative contracts	2,743	166	2,577	—
Trading loans	1,353	—	1,353	—
Total trading assets	6,175	353	5,613	209
Securities AFS				
U.S. Treasury securities	5,516	5,516	—	—
Federal agency securities	1,895	—	1,895	—
U.S. states and political subdivisions	579	—	505	74
MBS - agency	14,358	—	14,358	—
MBS - private	347	—	—	347
CDO/CLO securities	50	—	50	—
ABS	808	—	788	20
Corporate and other debt securities	482	—	477	5
Coke common stock	1,973	1,973	—	—
Other equity securities [1]	887	—	197	690
Total securities AFS	26,895	7,489	18,270	1,136
LHFS				
Residential loans	2,847	—	2,845	2
Corporate and other loans	321	—	316	5
Total LHFS	3,168	—	3,161	7
LHFI	492	—	—	492
MSRs	1,439	—	—	1,439
Other assets [2]	241	—	223	18
Liabilities				
Trading liabilities				
U.S. Treasury securities	439	439	—	—
Corporate and other debt securities	398	—	398	—
Derivative contracts	1,841	120	1,576	145

Total trading liabilities	2,678	559	1,974	145
Brokered deposits	1,213	—	1,213	—
Long-term debt	2,837	—	2,837	—
Other liabilities [2]	114	—	72	42

[1] Includes at cost, $298 million of FHLB of Atlanta stock, $391 million of Federal Reserve Bank stock, and $197 million in mutual fund investments.
[2] These amounts include IRLCs and derivative financial instruments entered into by the Mortgage line of business to hedge its interest rate risk along with a derivative associated with the Company's sale of Visa shares during the year ended December 31, 2009.

47

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

(Dollars in millions)	Aggregate Fair Value September 30, 2011	Aggregate Unpaid Principal Balance under FVO September 30, 2011	Fair Value Over/(Under) Unpaid Principal
Trading loans	$1,686	$1,665	$21
LHFS	1,671	1,630	41
Past due loans of 90 days or more	3	3	—
Nonaccrual loans	1	9	(8)
LHFI	424	455	(31)
Past due loans of 90 days or more	2	4	(2)
Nonaccrual loans	26	49	(23)
Brokered deposits	1,056	1,045	11
Long-term debt	2,016	1,901	115

(Dollars in millions)	Aggregate Fair Value December 31, 2010	Aggregate Unpaid Principal Balance under FVO December 31, 2010	Fair Value Over/(Under) Unpaid Principal
Trading loans	$1,353	$1,320	$33
LHFS	3,160	3,155	5
Past due loans of 90 days or more	2	2	—
Nonaccrual loans	6	25	(19)
LHFI	462	517	(55)
Past due loans of 90 days or more	2	4	(2)
Nonaccrual loans	28	54	(26)
Brokered deposits	1,213	1,188	25
Long-term debt	2,837	2,753	84

The following tables present the change in fair value during the three and nine months ended September 30, 2011 and 2010 of financial instruments for which the FVO has been elected, as well as MSRs that are accounted for at fair value in accordance with applicable fair value accounting guidance. 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. The changes in the fair value of economic hedges are also recognized in trading account profits and commissions, mortgage production related income, or mortgage servicing related income, as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company’s economic hedging activities are deployed at both the instrument and portfolio level.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO				Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2011, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Account Profits/(Losses) and Commissions	Mortgage Production Related Income [2]	Mortgage Servicing Related Income/(loss)	Total Changes in Fair Values Included in Current-Period Earnings [1]	Trading Account Profits/(Losses) and Commissions	Mortgage Production Related Income [2]	Mortgage Servicing Related Income/(loss)	Total Changes in Fair Values Included in Current-Period Earnings [1]
Assets								
Trading assets	$3	$—	$—	$3	$15	$—	$—	$15
LHFS	(11)	181	—	170	(14)	330	—	316
LHFI	(1)	17	—	16	3	13	—	16
MSRs	—	1	(437)	(436)	—	5	(582)	(577)
Liabilities								
Brokered deposits	27	—	—	27	24	—	—	24
Long-term debt	7	—	—	7	(31)	—	—	(31)

[1]Changes in fair value for the three and nine months ended September 30, 2011, exclude accrued interest for the periods then ended. Interest income or interest expense on trading assets, LHFS, LHFI, brokered 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 based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these securities, the Company records interest income based on the effective yield calculated upon acquisition of the securities.
[2]For the three and nine months ended September 30, 2011, income related to LHFS includes $46 million and $178 million, respectively, related to MSRs recognized upon the sale of loans reported at fair value. For the three and nine months ended September 30, 2011, income related to MSRs includes $1 million and $5 million, respectively, of MSRs recognized upon the sale of loans reported at LOCOM. These MSRs are included in the table since the Company elected to report MSRs recognized in 2009 using the fair value method. Previously, MSRs were reported under the amortized cost method.

(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2010, for Items Measured at Fair Value Pursuant to Election of the FVO				Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2010, for Items Measured at Fair Value Pursuant to Election of the FVO			
	Trading Account Profits/(Losses) and Commissions	Mortgage Production Related Income [2]	Mortgage Servicing Related Income/(loss)	Total Changes in Fair Values Included in Current Period	Trading Account Profits/(Losses) and Commissions	Mortgage Production Related Income [2]	Mortgage Servicing Related Income/(loss)	Total Changes in Fair Values Included in Current

				Earnings [1]				Period Earnings [1]
Assets								
Trading assets	$1	$—	$—	$1	($3)	$—	$—	($3)
LHFS	7	206	—	213	14	498	—	512
LHFI	1	6	—	7	(1)	13	—	12
MSRs	—	8	(290)	(282)	—	14	(810)	(796)
Liabilities								
Brokered deposits	(59)	—	—	(59)	(67)	—	—	(67)
Long-term debt	(97)	—	—	(97)	(222)	—	—	(222)

[1]Changes in fair value for the three and nine months ended September 30, 2010, exclude accrued interest for the periods then ended. Interest income or interest expense on trading assets, LHFS, LHFI, brokered 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 based on their contractual coupons. Certain trading assets do not have a contractually stated coupon and, for these securities, the Company records interest income based on the effective yield calculated upon acquisition of the securities.

[2]For the three and nine months ended September 30, 2010, income related to LHFS, includes $57 million and $184 million, respectively, related to MSRs recognized upon the sale of loans reported at fair value. For the three and nine months ended September 30, 2010, income related to MSRs includes $7 million and $14 million, respectively, of MSRs recognized upon the sale of loans reported at LOCOM. These MSRs are included in the table since the Company elected to report MSRs recognized in 2009 using the fair value method. Previously, MSRs were reported under the amortized cost method.

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 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 independently validated against pricing received from third party pricing sources; securities AFS are valued by an independent third party pricing service that is widely used by market

Notes to Consolidated Financial Statements (Unaudited)-Continued

participants. 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.

Federal agency securities
The Company includes in this classification securities issued by federal agencies and GSEs. 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 municipal securities includes ARS purchased since the auction rate market began failing in February 2008 and have been considered level 3 securities due to the significant decrease in the volume and level of activity in these markets, which has necessitated the use of significant unobservable inputs into the Company's valuations. Municipal ARS are classified as securities AFS. These securities were valued using comparisons to similar ARS for which auctions are currently successful and/or to longer term, non-ARS issued by similar municipalities. The Company also looked at the relative strength of the municipality and made appropriate downward adjustments in price based on the credit rating of the municipality as well as the relative financial strength of the insurer on those bonds. Although auctions for several municipal ARS have been operating successfully, ARS owned by the Company at September 30, 2011 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. In order to estimate pricing on these securities, the Company utilized a third party municipal bond yield curve for the lowest investment grade bonds (BBB rated) 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 as level 2.
MBS – private
Private-label MBS includes purchased interests in third party securitizations as well as retained interests in Company-sponsored securitizations of residential mortgages. Generally, the Company attempts to obtain pricing for its securities from an independent pricing service or third party brokers who have experience in valuing certain investments. This pricing may be used as either direct support for the Company's valuations or used to validate outputs from its own proprietary models. The Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, market information received from outside market participants and analysts, and/or changes in the underlying collateral performance. When actual trades are not available to corroborate pricing information received, the Company uses industry-standard or proprietary models to estimate fair value and considers assumptions that are generally not observable in the current markets or that are not specific to the securities that the Company owns, such as relevant market indices that correlate to the underlying collateral, prepayment speeds, default rates, loss severity rates and discount rates. As liquidity returns to these markets, we have seen more pricing information from third parties and a reduction in the need to use internal pricing models to estimate fair value. Even though limited third party pricing has been available, the Company continued to

classify private-label MBS as level 3, as the Company believes that this third party pricing relied on a significant amount of unobservable assumptions, as evidenced by a persistently wide bid-ask price range, 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 our quarterly OTTI evaluation process. See Note 2, “Securities Available for Sale,” for details regarding assumptions used to assess impairment and impairment amounts recognized through earnings on private-label MBS during the nine months ended September 30, 2011 and 2010.

CDO/CLO Securities

Level 2 securities AFS consists of senior interests in third party CLOs for which independent broker pricing based on market trades and/or from new issuance of similar assets is readily available. At September 30, 2011, the Company's investments in level 3 trading CDOs consisted of senior ARS interests in Company-sponsored securitizations of trust preferred collateral. In the first quarter of 2011, the Company sold the remaining securities within trading assets that were received upon the liquidation of one of the Company's SIV investments, which included $21 million of CDO securities. Additionally, the Company's $20 million retained interest in a structured participation of commercial loans was liquidated through the exercise of the Company's clean up call. For the ARS CDOs classified as level 3 trading assets, increases in the value of these interests during the nine months ended September 30, 2011 were due primarily to a steady recovery in the broader CDO market during the first six months of 2011; offset by a deterioration in the collateral of certain interests during the three months ended September 30, 2011. Although market conditions have improved, the auctions continue to fail and the Company continues to make significant adjustments to valuation assumptions available from observable secondary market trading of similar term securities; therefore, the Company continued to classify these as level 3 investments.

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. Additionally, the Company classified $32 million of trading ARS and $74 million of AFS ARS collateralized by government guaranteed student loans as level 2 due to observable market trades and bids for similar senior securities. Student loan ABS held by the Company are generally collateralized by Federal Family Education Loan Program student loans, the majority of which benefit from a 97% (or higher) government guarantee of principal and interest. For 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.

During the first quarter of 2011, the Company sold the remaining ABS related to the assets acquired in 2007, including those received in the SIV liquidation that occurred in December 2010. This included $31 million of level 3 trading ABS collateralized by auto loans and home equity lines of credit.

Corporate and other debt securities

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

Commercial paper

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

Equity securities

Level 2 equity securities, both trading and AFS, consist primarily of money market mutual funds that trade at a $1 net asset value, which is considered the fair market value of those fund shares.

Level 3 equity securities classified as trading include nonmarketable preferred shares in municipal funds issued as ARS that the Company has purchased since the auction rate market began failing in February 2008. The fair value of ARS recorded in trading equity securities declined to $7 million as of September 30, 2011 compared to $123 million as of December 31, 2010 due to issuer redemptions. During the three and nine months ended September 30, 2011, the

Company recognized gains of $1 million and $13 million, respectively, from redemptions of these ARS at par. At September 30, 2011, the issuer had called the remaining equity ARS and all have been subsequently redeemed.

Level 3 equity securities classified as securities AFS include, as of September 30, 2011, $562 million of FHLB stock and Federal Reserve Bank stock, which are redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available. The Company accounts for the stock based on the industry guidance that requires these investments be carried at cost and evaluated for impairment based on the ultimate recovery of par value. During the nine months ended September 30, 2011, the FHLB of Atlanta repurchased $127 million of its stock, which accounts for the decline in level 3 AFS equity securities during the period.

Derivative contracts (trading assets or trading liabilities)

With the exception of one derivative contract discussed herein and certain instruments discussed under ‘other assets/liabilities, net’ that qualify as derivative instruments, the Company’s derivative instruments are level 1 or level 2 instruments. Level 1 derivative contracts generally include exchange-traded futures or option contracts for which pricing is readily available. See Note 11, “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 it significant inputs, such as interest rate yield curves, quoted exchange rates and spot prices, market implied volatilities and credit curves.

The Agreements the Company entered into related to its Coke common stock are level 3 instruments, due to the unobservability of a significant assumption used to value these instruments. Because the value is primarily driven by the embedded equity collars on the Coke shares, a Black-Scholes model is the appropriate valuation model. Most of the assumptions are directly observable from the market, such as the per share market price of Coke common stock, interest rates, and the dividend rate on the Coke common stock. Volatility is a significant assumption and is impacted both by the unusually large size of the trade and the long tenor until settlement. Because the derivatives carry scheduled terms of 6.5 years and 7 years from the effective date and are on a significant number of Coke shares, the observable and active options market on Coke does not provide for any identical or similar instruments. As such, the Company receives estimated market values from a market participant who is knowledgeable about Coke equity derivatives and is active in the market. Based on inquiries of the market participant as to their procedures, as well as the Company’s own valuation assessment procedures, the Company has satisfied itself that the market participant is using methodologies and assumptions that other market participants would use in estimating the fair value of The Agreements. At September 30, 2011 and December 31, 2010, The Agreements’ combined fair value was a liability of $146 million and $145 million, respectively.

Trading loans

The Company engages in certain businesses whereby the election to carry loans at fair value for financial reporting aligns with the underlying business purposes. Specifically, the loans that are included within this classification are: (i) loans made in connection with the Company’s TRS business (see Note 11, “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 CIB line of business. All of these loans have been classified as level 2, due to the market data that the Company uses in its estimates of fair value.

The loans made in connection with the Company’s TRS business are short-term, demand loans, whereby the repayment is senior in priority and whose value is collateralized. While these loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are

made by the Company to arrive at this conclusion. At September 30, 2011 and December 31, 2010, the Company had outstanding $1.4 billion and $972 million, respectively, of such short-term loans carried at fair value.
SBA loans are similar to SBA securities discussed herein under “Federal agency securities,” except for their legal form. In both cases, the Company trades instruments that are fully guaranteed by the U.S. government as to contractual principal and interest and has sufficient observable trading activity upon which to base its estimates of fair value.
The loans from the Company’s sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to carry these loans at fair value in order to

reflect the active management of these positions. The Company is able to obtain fair value estimates for substantially all of these loans using a third party valuation service that is broadly used by market participants. While most of the loans are traded in the markets, the Company does not believe that trading activity qualifies the loans as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is a more appropriate presentation of the underlying market activity for the loans. At September 30, 2011 and December 31, 2010, $256 million and $381 million, respectively, of loans related to the Company’s trading business were held in inventory.

Loans and Loans Held for Sale

Residential LHFS

The Company recognized at fair value certain newly-originated mortgage LHFS based upon defined product criteria. The Company chooses to fair value these mortgage LHFS in order to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. This election impacts the timing and recognition of origination fees and costs, as well as servicing value. Specifically, origination fees and costs are recognized in earnings when earned or incurred. The servicing value, which had been recorded as MSRs at the time the loan was sold, 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 income.

Level 2 LHFS are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities adjusted for servicing and risk. Level 3 loans are primarily non-agency residential mortgages for which there is little to no observable trading activity of similar instruments in either the new issuance or secondary loan markets as either whole loans or as securities. Prior to the non-agency residential loan market disruption, which began during the third quarter of 2007 and continues, the Company was able to obtain certain observable pricing from either the new issuance or secondary loan market. However, as the markets deteriorated and certain loans were not actively trading as either whole loans or as securities, the Company began employing the same alternative valuation methodologies used to value level 3 residential MBS to fair value the loans.

As disclosed in the tabular level 3 rollforwards, transfers of certain mortgage LHFS into level 3 during 2011 were largely due to borrower defaults or the identification of other loan defects impacting the marketability of the loans.

For residential loans that the Company has elected to carry at fair value, the Company has considered the component of the fair value changes due to instrument-specific credit risk, which is intended to be an approximation of the fair value change attributable to changes in borrower-specific credit risk. For the three and nine months ended September 30, 2011, the Company recognized losses in the Consolidated Statements of Income of $4 million and $14 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. For the three and nine months ended September 30, 2010, the Company recognized losses in the Consolidated Statements of Income of $4 million and $16 million, respectively, due to changes in fair value attributable to borrower-specific credit risk. In addition to borrower-specific credit risk, there are other, more significant, variables that drive changes in the fair values of the loans, including interest rates and general conditions in the principal markets for the loans.

Corporate and other LHFS

As discussed in Note 6, “Certain Transfers of Financial Assets and Variable Interest Entities,” the Company has determined that it is the primary beneficiary of a CLO vehicle, which resulted in the Company consolidating the loans of that vehicle. Because the CLO trades its loans from time to time and in order to fairly present the economics of the CLO, the Company elected to carry the loans of the CLO at fair value. The Company is able to obtain fair value estimates for substantially all of these loans using a third party valuation service that is broadly used by market participants. While most of the loans are traded in the markets, the Company does not believe the loans qualify as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not

exchange-traded, such that the Company believes that level 2 is more representative of the general market activity for the loans.

LHFI

Level 3 loans include $3 million of fair value loans that were acquired through the acquisition of GB&T. The loans the Company elected to account for at fair value are primarily nonperforming commercial real estate loans, which do not trade in an active secondary market. As these loans are classified as nonperforming, cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of

these loans is derived from internal estimates, incorporating market data when available, of the value of the underlying collateral. Additionally, level 3 LHFI primarily include $449 million of mortgage loans that have been deemed not marketable, largely due to borrower defaults or the identification of other loan defects. The Company values these loans using a discounted cash flow approach based on assumptions that are generally not observable in the current markets, such as prepayment speeds, default rates, loss severity rates, and discount rates.

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

During the three and nine months ended September 30, 2011, the Company transferred $95 million and $149 million, respectively, of IRLCs out of level 3 as the associated loans were closed, compared to $137 million and $267 million, during the same periods in 2010, respectively.

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

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

Liabilities

Trading liabilities

Trading liabilities are primarily comprised of derivative contracts, but also include various contracts involving U.S. Treasury securities, Federal agency securities, and corporate 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 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 in order 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.

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

For brokered 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 gains of $13 million and $1 million for the three and nine months ended September 30, 2011, respectively, and losses of $47 million and $40 million for the three and nine months ended September 30, 2010, respectively, due to changes in its own credit spread on its brokered deposits carried at fair value.

Long-term debt

The Company has elected to carry at fair value certain fixed rate debt issuances of public debt which are valued by obtaining quotes from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. Additionally, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company determined that the appropriate classification for the debt was level 2. The election to fair value the debt was made in order 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 mainly 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 gains of $57 million and $43 million for the three and nine months ended September 30, 2011, respectively, and losses of $69 million and $86 million for the three and nine months ended September 30, 2010, respectively.

The Company also carries approximately $285 million of issued securities contained in a consolidated CLO at fair value in order to recognize the nonrecourse nature of these liabilities to the Company. Specifically, the holders of the liabilities are only paid interest and principal to the extent of the cash flows from the assets of the vehicle and the Company has no current or future obligations to fund any of the CLO vehicle's liabilities. The Company has classified these securities as level 2, as the primary driver of their fair values are the loans owned by the CLO, which the Company has also elected to carry at fair value, as discussed herein under "Loans and Loans Held for Sale – Corporate and other LHFS".

Notes to Consolidated Financial Statements (Unaudited)-Continued

The following tables show a reconciliation of the beginning and ending balances for fair valued assets and liabilities measured on a recurring basis using significant unobservable inputs (other than MSRs which are disclosed in Note 5, “Goodwill and Other Intangible Assets”). Transfers into and out of the fair value hierarchy levels are assumed to be as of the end of the quarter in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values.

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

56

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Beginning balance January 1, 2011	Included in earnings (sold or settled)	OCI	Purchases	Sales	Settlements	Transfers from/(to) other balance sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value September 30, 2011	Included in earnings (held at September 30, 2011) [1]
Assets											
Trading assets											
MBS - private	$6	$2	$—	$—	($5)	($2)	$—	$—	$—	$1	$—
CDO/CLO securities	53	25 [2]	—	6	(21)	(1)	(20)	—	—	42	11
ABS	27	9	—	—	(31)	—	—	—	—	5	2
Equity securities	123	13	—	—	—	(129)	—	—	—	7	1
Total trading assets	209	49 [3]	—	6	(57)	(132)	(20)	—	—	55	14 [3]
Securities AFS											
U.S. states and political subdivisions	74	2	1	—	(4)	(11)	—	—	—	62	—
MBS - private	347	(3)	—	—	—	(57)	—	—	—	287	(3)
ABS	20	—	(1)	—	—	(3)	—	—	—	16	—
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5	—
Other equity securities	690	—	—	—	—	(127)	—	—	—	563	—
Total securities AFS	1,136	(1) [4]	—	—	(4)	(198)	—	—	—	933	(3) [4]
LHFS											
Residential loans	2	(1) [5]	—	—	(15)	(1)	—	19	(2)	2	—
Corporate and other loans	5	(1) [6]	—	—	—	—	(4)	—	—	—	—
LHFI	492	16	—	—	—	(46)	(10)	—	—	452	13 [7]
Other assets/(liabilities), net	(24)	229	—	—	—	7	(149)	—	—	63	—
Liabilities											
Derivative contracts	(145)	1	(2) [8]	—	—	—	—	—	—	(146)	1

[1] Change in unrealized gains/(losses) included in earnings during the period related to financial assets still held at September 30, 2011.
[2] Amounts included in earnings do not include losses accrued as a result of the ARS settlements discussed in Note 14, "Contingencies."
[3] Amounts included in earnings are recorded in trading account profits and commissions.
[4] Amounts included in earnings are recorded in net securities gains.
[5] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related income.
[6] Amounts included in earnings are recorded in other noninterest income.

[7] Amounts are generally included in mortgage production related income, however, the mark on certain fair value loans is included in trading account profits and commissions.
[8] 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 11, "Derivative Financial Instruments."

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Beginning balance July 1, 2010	Included in earnings (sold or settled)	OCI	Purchases, sales, issuances, settlements, maturities, paydowns, net	Transfers from/(to) other balance sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value September 30, 2010	Included in earnings (held at September 30, 2010) [1]
Assets									
Trading assets									
U.S. states and political subdivisions	$9	$—	$—	$—	$—	$—	$—	$9	$—
MBS - private	3	1	—	(1)	—	—	—	3	—
CDO/CLO securities	117	13	—	(7)	—	—	—	123	12
ABS	48	(1)	—	8	(14)	—	—	41	(1)
Equity securities	120	—	—	—	—	—	—	120	—
Derivative contracts	128	2	(125) [2]	—	—	—	—	5	—
Total trading assets	425	15 [3]	(125)	—	(14)	—	—	301	11 [3]
Securities AFS									
U.S. states and political subdivisions	125	1	1	(6)	—	—	—	121	—
MBS - private	365	—	19	(20)	—	—	—	364	—
ABS	108	—	2	18	—	—	—	128	—
Corporate and other debt securities	5	—	—	—	—	—	—	5	—
Other equity securities	705	—	—	(24)	—	—	—	681	—
Total securities AFS	1,308	1 [5]	22	(32)	—	—	—	1,299	—
LHFS									
Residential loans	104	(4) [6]	—	(10)	(71)	42	(2)	59	(5) [6]
Corporate and other loans	5	—	—	—	—	—	—	5	—
LHFI	411	5 [8]	—	(10)	68	—	(2)	472	3 [8]
Other assets/(liabilities), net	53	164 [6]	—	—	(137)	—	—	80	—

58

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Beginning balance January 1, 2010	Included in earnings (sold or settled)	OCI	Purchases, sales, issuances, settlements, maturities, paydowns, net	Transfers from/(to) other balance sheet line items	Transfers into Level 3	Transfers out of Level 3	Fair value September 30, 2010	Included in earnings (held at September 30, 2010) [1]
Assets									
Trading assets									
U.S. states and political subdivisions	$7	$—	$—	$2	$—	$—	$—	$9	($1)
MBS - private	6	—	—	(3)	—	—	—	3	(1)
CDO/CLO securities	175	30	—	(82)	—	—	—	123	24
ABS	51	2	—	2	(14)	—	—	41	(1)
Equity securities	151	4	—	(35)	—	—	—	120	—
Derivative contracts	—	9	(4) [2]	—	—	—	—	5	—
Total trading assets	390	45 [3]	(4)	(116)	(14)	—	—	301	21 [1]
Securities AFS									
U.S. states and political subdivisions	132	1	(1)	(11)	—	—	—	121	—
MBS - private	378	(2)	53	(65)	—	—	—	364	(2)
ABS	102	1 [4]	(5)	30	—	—	—	128	—
Corporate and other debt securities	5	—	—	—	—	—	—	5	—
Other equity securities	705	—	—	(24)	—	—	—	681	—
Total securities AFS	1,322	— [5]	47	(70)	—	—	—	1,299	(2) [5]
LHFS									
Residential loans	142	1 [6]	—	(80)	(67)	66	(3)	59	(10) [6]
Corporate and other loans	9	(2) [7]	—	(2)	—	—	—	5	(2) [7]
LHFI	449	10 [8]	—	(35)	51	—	(3)	472	9 [8]
Other assets/(liabilities), net	(35)	376 [6]	—	6	(267)	—	—	80	—
Liabilities									
Derivative contracts	(46)	—	46 [2]	—	—	—	—	—	—

[1] Change in unrealized gains/(losses) included in earnings for the period related to financial assets still held at September 30, 2010.
[2] 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 stock as discussed in Note 11, "Derivative Financial Instruments."
[3] Amounts included in earnings are recorded in trading account profits/(losses) and commissions.
[4] Amounts included in earnings do not include losses accrued as a result of the ARS settlements discussed in Note 14, "Contingencies."
[5] Amounts included in earnings are recorded in net securities gains.
[6] Amounts included in earnings are net of issuances, fair value changes, and expirations and are recorded in mortgage production related income.
[7] Amounts included in earnings are recorded in other noninterest income.

[8] Amounts are generally included in mortgage production related income, however, the mark on certain fair value loans is included in trading account profits and commissions.

Non-recurring Fair Value Measurements

The following tables present the change in carrying value of those assets measured at fair value on a non-recurring basis, for which impairment was recognized. 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. The Company's economic hedging activities for LHFS are deployed at the portfolio level.

Notes to Consolidated Financial Statements (Unaudited)-Continued

(Dollars in millions)	Net Carrying Value	Fair Value Measurement at September 30, 2011, Using Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Allowance
LHFS	$567	$—	$501	$66	$1
LHFI	144	—	—	144	16
OREO	509	—	358	151	(126)
Other Assets	43	—	28	15	(14)

(Dollars in millions)	Net Carrying Value	Fair Value Measurement at December 31, 2010, Using Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Allowance
LHFS	$333	$—	$142	$191	$—
LHFI	85	—			