SUNTRUST BANKS INC
Form 10-Q
August 08, 2013

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-08918

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
At July 31, 2013, 537,528,406 shares of the Registrant's Common Stock, $1.00 par value, were outstanding.

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GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
AIP — Annual Incentive Plan.
ALCO — Asset/Liability Management Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ARS — Auction rate securities.
ASU — Accounting standards update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — The third Basel Accord developed by the BCBS to strengthen existing regulatory capital requirements.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
C&I — Commercial and Industrial.
CCAR — Comprehensive Capital Analysis and Review.
CDO — Collateralized debt obligation.
CD — Certificate of deposit.
CDS — Credit default swaps.
CEO — Chief Executive Officer.
CFO — Chief Financial Officer.
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.
CRE — Commercial Real Estate.
CSA — Credit support annex.
DDA — Demand deposit account.
Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DBRS — DBRS, Inc.
DTA — Deferred tax asset.
EPS — Earnings per share.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.
FASB — Financial Accounting Standards Board.
FDIC — The Federal Deposit Insurance Corporation.
Federal Reserve — The Board of Governors of the Federal Reserve System.
Fed funds — Federal funds.

FFELP — Federal Family Education Loan Program.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.
FICO — Fair Isaac Corporation.
Fitch — Fitch Ratings Ltd.
FRB — Federal Reserve Board.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GenSpring — GenSpring Family Offices, LLC.
GSE — Government-sponsored enterprise.
HAMP — Home Affordable Modification Program.
HARP — Home Affordable Refinance Program.
HUD — U.S. Department of Housing and Urban Development.
IIS — Institutional Investment Solutions.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFI-FV — Loans held for investment carried at fair value.
LHFS — Loans held for sale.
LIBOR —London InterBank Offered Rate.
LOCOM – Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MBS — Mortgage-backed securities.
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations.
Moody's — Moody's Investors Service.
MRA — Master Repurchase Agreement.
MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming assets.
NPL — Nonperforming loan.
NPR — Notice of Proposed Rulemaking.
OCC — Office of the Comptroller of the Currency.
OCI — Other comprehensive income.
OFAC — Office of Foreign Assets Control.
OIG — Office of Inspector General.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.

Parent Company — SunTrust Banks, Inc., the parent Company of SunTrust Bank and other subsidiaries of SunTrust Banks, Inc.
PD — Probability of default.
QSPE — Qualifying special-purpose entity.
RidgeWorth — RidgeWorth Capital Management, Inc.
ROA — Return on average total assets.
ROE — Return on average common shareholders’ equity.
RSU — Restricted stock unit.
RWA — Risk-weighted assets.
S&P — Standard and Poor’s.
SBA — Small Business Administration.
SCAP — Supervisory Capital Assessment Program.
SEC — U.S. Securities and Exchange Commission.
SERP — Supplemental Executive Retirement Plan.
SPE — Special purpose entity.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
SunTrust Community Capital — SunTrust Community Capital, LLC.
TAG — Transaction Account Guarantee.
TDR — Troubled debt restructuring.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
VA —Veterans Administration.
VAR —Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa —The Visa, U.S.A. Inc. card association or its affiliates, collectively.
Visa Counterparty — a financial institution which purchased the Company's Visa Class B shares.
W&IM — Wealth and Investment Management.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.
Consolidated Statements of Income

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2013	2012	2013	2012
Interest Income				
Interest and fees on loans	$1,157	$1,263	$2,326	$2,563
Interest and fees on loans held for sale	29	31	60	55
Interest and dividends on securities available for sale[1]	143	180	286	375
Trading account interest and other	18	18	34	33
Total interest income	1,347	1,492	2,706	3,026
Interest Expense				
Interest on deposits	75	118	154	245
Interest on long-term debt	53	90	104	178
Interest on other borrowings	8	10	16	18
Total interest expense	136	218	274	441
Net interest income	1,211	1,274	2,432	2,585
Provision for credit losses	146	300	358	617
Net interest income after provision for credit losses	1,065	974	2,074	1,968
Noninterest Income				
Service charges on deposit accounts	164	167	324	332
Trust and investment management income	130	130	254	260
Retail investment services	69	62	130	120
Other charges and fees	97	111	186	208
Investment banking income	93	75	161	147
Trading income	49	70	91	127
Card fees	78	85	154	164
Mortgage production related income	133	103	292	166
Mortgage servicing related income	1	70	39	151
Net securities gains[2]	—	14	2	32
Other noninterest income	44	53	88	109
Total noninterest income	858	940	1,721	1,816
Noninterest Expense				
Employee compensation	635	654	1,246	1,306
Employee benefits	102	108	250	254
Outside processing and software	187	180	365	356
Net occupancy expense	86	88	175	176
Regulatory assessments	41	60	95	111
Equipment expense	46	46	91	91
Operating losses	72	69	111	129
Credit and collection services	52	61	85	116
Marketing and customer development	31	32	61	59
Amortization of intangible assets	6	11	12	22
Other real estate expense	1	52	1	103
Net loss on debt extinguishment	—	13	—	13

Other noninterest expense	138	172	268	351
Total noninterest expense	1,397	1,546	2,760	3,087
Income before provision for income taxes	526	368	1,035	697
Provision for income taxes	146	91	297	160
Net income including income attributable to noncontrolling interest	380	277	738	537
Net income attributable to noncontrolling interest	3	2	9	12
Net income	$377	$275	$729	$525
Net income available to common shareholders	$365	$270	$705	$515
Net income per average common share:				
Diluted	$0.68	$0.50	$1.31	$0.96
Basic	0.68	0.51	1.32	0.97
Dividends declared per common share	0.10	0.05	0.15	0.10
Average common shares - diluted	539,763	537,495	539,812	536,951
Average common shares - basic	535,172	533,964	535,425	533,532

[1] Includes dividends on Coke common stock of $15 million and $31 million during the three and six months ended June 30, 2012, respectively.

[2] Includes credit-related OTTI losses of $0 and $2 million that were unrealized losses reclassified from OCI, before taxes, for the three months ended June 30, 2013 and 2012, respectively, and $1 million and $4 million that were unrealized losses reclassified from OCI, before taxes, for the six months ended June 30, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements (unaudited).

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

(Dollars in millions) (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income	$377	$275	$729	$525
Components of other comprehensive (loss)/income:				
Change in net unrealized gains on securities, net of tax of ($223), $80, ($265), and $107, respectively	(382)	142	(455)	192
Change in net unrealized gains on derivatives, net of tax of ($54), ($38), ($96), and ($96), respectively	(91)	(69)	(163)	(170)
Change related to employee benefit plans, net of tax of $3, ($2), $15, and ($16), respectively	5	(4)	26	(28)
Total other comprehensive (loss)/income	(468)	69	(592)	(6)
Total comprehensive (loss)/income	($91)	$344	$137	$519

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands) (Unaudited)	June 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$3,027	$7,134
Federal funds sold and securities borrowed or purchased under agreements to resell	1,111	1,101
Interest-bearing deposits in other banks	21	22
Cash and cash equivalents	4,159	8,257
Trading assets (includes encumbered securities of $926 and $727 at June 30, 2013 and December 31, 2012, respectively)	5,824	6,049
Securities available for sale	23,389	21,953
Loans held for sale[1] ($3,196 and $3,243 at fair value at June 30, 2013 and December 31, 2012, respectively)	3,647	3,399
Loans[2] ($339 and $379 at fair value at June 30, 2013 and December 31, 2012, respectively)	122,031	121,470
Allowance for loan and lease losses	(2,125)	(2,174)
Net loans	119,906	119,296
Premises and equipment	1,506	1,564
Goodwill	6,369	6,369
Other intangible assets (MSRs at fair value: $1,199 and $899 at June 30, 2013 and December 31, 2012, respectively)	1,244	956
Other real estate owned	198	264
Other assets	5,304	5,335
Total assets	$171,546	$173,442
Liabilities and Shareholders' Equity		
Noninterest-bearing consumer and commercial deposits	$37,999	$39,481
Interest-bearing consumer and commercial deposits	87,589	90,699
Total consumer and commercial deposits	125,588	130,180
Brokered time deposits (CDs at fair value: $793 and $832 at June 30, 2013 and December 31, 2012, respectively)	2,006	2,136
Foreign deposits	25	—
Total deposits	127,619	132,316
Funds purchased	420	617
Securities sold under agreements to repurchase	1,869	1,574
Other short-term borrowings	5,825	3,303
Long-term debt [3] ($1,594 and $1,622 at fair value at June 30, 2013 and December 31, 2012, respectively)	9,818	9,357
Trading liabilities	1,176	1,161
Other liabilities	3,812	4,129
Total liabilities	150,539	152,457
Preferred stock, no par value	725	725
Common stock, $1.00 par value	550	550
Additional paid in capital	9,126	9,174
Retained earnings	11,447	10,817
Treasury stock, at cost, and other[4]	(558)	(590)
Accumulated other comprehensive (loss)/income, net of tax	(283)	309
Total shareholders' equity	21,007	20,985
Total liabilities and shareholders' equity	$171,546	$173,442

Common shares outstanding	538,653	538,959
Common shares authorized	750,000	750,000
Preferred shares outstanding	7	7
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	11,268	10,962
[1] Includes loans held for sale, at fair value, of consolidated VIEs	$289	$319
[2] Includes loans of consolidated VIEs	345	365
[3] Includes debt of consolidated VIEs ($285 and $286 at fair value at June 30, 2013 and December 31, 2012, respectively)	645	666
[4] Includes noncontrolling interest held	115	114

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock and Other [1]	Accumulated Other Comprehensive (Loss)/Income [2]	Total
Balance, January 1, 2012	$275	537	$550	$9,306	$8,978	($792)	$1,749	$20,066
Net income	—	—	—	—	525	—	—	525
Other comprehensive loss	—	—	—	—	—	—	(6)	(6)
Change in noncontrolling interest	—	—	—	—	—	4	—	4
Common stock dividends, $0.10 per share	—	—	—	—	(54)	—	—	(54)
Preferred stock dividends, $2,033 per share	—	—	—	—	(6)	—	—	(6)
Exercise of stock options and stock compensation expense	—	—	—	(17)	—	26	—	9
Restricted stock activity	—	1	—	(61)	—	65	—	4
Amortization of restricted stock compensation	—	—	—	—	—	15	—	15
Issuance of stock for employee benefit plans and other	—	—	—	(10)	—	21	—	11
Balance, June 30, 2012	$275	538	$550	$9,218	$9,443	($661)	$1,743	$20,568
Balance, January 1, 2013	$725	539	$550	$9,174	$10,817	($590)	$309	$20,985
Net income	—	—	—	—	729	—	—	729
Other comprehensive loss	—	—	—	—	—	—	(592)	(592)
Change in noncontrolling interest	—	—	—	—	—	1	—	1
Common stock dividends, $0.15 per share	—	—	—	—	(81)	—	—	(81)
Preferred stock dividends [3]	—	—	—	—	(18)	—	—	(18)
Acquisition of treasury stock	—	(2)	—	—	—	(50)	—	(50)
Exercise of stock options and stock compensation expense	—	1	—	(15)	—	25	—	10
Restricted stock activity	—	1	—	(33)	—	37	—	4
Amortization of restricted stock compensation	—	—	—	—	—	15	—	15
Issuance of stock for employee benefit plans and other	—	—	—	—	—	4	—	4
Balance, June 30, 2013	$725	539	$550	$9,126	$11,447	($558)	($283)	$21,007

[1] At June 30, 2013, includes ($605) million for treasury stock, ($68) million for compensation element of restricted stock, and $115 million for noncontrolling interest.
At June 30, 2012, includes ($707) million for treasury stock, ($65) million for compensation element of restricted stock, and $111 million for noncontrolling interest.

[2] Components of AOCI at June 30, 2013, included $65 million in unrealized net gains on AFS securities, $369 million in unrealized net gains on derivative financial instruments, and ($717) million related to employee benefit plans. At June 30, 2012, components included $2,055 million in unrealized net gains on AFS securities, $399 million in unrealized net gains on derivative financial instruments, and ($711) million related to employee benefit plans.
[3] Dividends were $2,022 per share for Perpetual Preferred Stock Series A and B and $2,856 per share for Perpetual Preferred Stock Series E for the six months ended June 30, 2013.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Six Months Ended June 30	
(Dollars in millions) (Unaudited)	2013	2012
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	$738	$537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	365	382
Origination of mortgage servicing rights	(203)	(161)
Provisions for credit losses and foreclosed property	389	706
Mortgage repurchase provision	29	330
Stock option compensation and amortization of restricted stock compensation	16	17
Net loss on extinguishment of debt	—	13
Net securities gains	(2)	(32)
Net gain on sale of loans held for sale, loans, and other assets	(350)	(501)
Net decrease/(increase) in loans held for sale	141	(121)
Net increase in other assets	(274)	(336)
Net (decrease)/increase in other liabilities	(125)	18
Net cash provided by operating activities	724	852
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	3,233	3,179
Proceeds from sales of securities available for sale	497	2,210
Purchases of securities available for sale	(5,828)	(1,451)
Net increase in loans, including purchases of loans	(1,608)	(4,312)
Proceeds from sales of loans	383	1,054
Capital expenditures	(43)	(112)
Payments related to acquisitions, including contingent consideration	—	(9)
Proceeds from the sale of other real estate owned and other assets	249	313
Net cash (used in)/provided by investing activities	(3,117)	872
Cash Flows from Financing Activities		
Net (decrease)/increase in total deposits	(4,697)	481
Net increase/(decrease) in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	2,620	(1,938)
Proceeds from the issuance of long-term debt	609	4,000
Repayment of long-term debt	(99)	(1,991)
Repurchase of common stock	(50)	—
Common and preferred dividends paid	(99)	(60)
Stock option activity	11	14
Net cash (used in)/provided by financing activities	(1,705)	506
Net (decrease)/increase in cash and cash equivalents	(4,098)	2,230
Cash and cash equivalents at beginning of period	8,257	4,509
Cash and cash equivalents at end of period	$4,159	$6,739
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$17	$31
Loans transferred from loans to loans held for sale	144	1,116
Loans transferred from loans and loans held for sale to other real estate owned	134	200

See Notes to Consolidated Financial Statements (unaudited).

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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 2012 Annual Report on Form 10-K. During the second quarter of 2013, the Company revised its credit policy relating to residential loans that have been discharged in Chapter 7 bankruptcy and not reaffirmed by the borrower, such that these loans are reclassified to accrual status from nonaccrual status after six months of payment performance following discharge by the bankruptcy court. As a result, the Company reclassified approximately $220 million of performing Chapter 7 bankruptcy loans that have been performing for six months or more since discharge to accrual status from nonaccrual status during the second quarter; however, these loans continued to be reported as TDRs.

Except for accounting policies that have been recently adopted as described below, and the policy change related to Chapter 7 bankruptcy loans noted above, there have been no significant changes to the Company's accounting policies as disclosed in the Company's 2012 Annual Report on Form 10-K.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." The ASU requires additional disclosures about financial instruments and derivative instruments that are offset or subject to an enforceable master netting arrangement or similar agreement. In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities", which more narrowly defined the scope of financial instruments to only include derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. The Company adopted these ASUs as of January 1, 2013, and the adoption did not have an impact on the Company's financial position, results of operations, or EPS. See Note 2, "Federal Funds Sold and Securities Borrowed or Purchased under Agreements to Resell" and Note 11, "Derivative Financial Instruments."

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" which provides disclosure guidance on amounts reclassified out of AOCI by component. The Company adopted the ASU as of January 1, 2013, and the adoption did not have an impact on the Company's financial position, results of operations, or EPS. See Note 16, "Accumulated Other Comprehensive Income."

In March 2013, the FASB issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)." The ASU requires additional disclosures about joint and several liability arrangements and requires the Company to measure obligations resulting from joint and several

liability arrangements as the sum of the amount the Company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the Company expects to pay on behalf of its co-obligors. The ASU is effective for the fiscal years and interim periods beginning after December 15, 2013. 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 2013, the FASB issued ASU 2013-08, "Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements." The ASU clarifies the characteristics of an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. The ASU is effective for the fiscal years and interim periods beginning

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after December 15, 2013. 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 July 2013, the FASB issued ASU 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the Emerging Issues Task Force)." The ASU permits the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting purposes, in addition to U.S. Treasury rates and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The ASU was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The ASU has no impact on the Company's current hedging relationships and, thus, no impact on the Company's financial position, results of operations, or EPS.

In July 2013, the FASB issued ASU 2013-11,"Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the Emerging Issues Task Force)." Prior to this ASU, U.S. GAAP did not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The ASU requires, with limited exceptions, that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a DTA for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The ASU is effective for fiscal years and interim periods beginning after December 15, 2013. As early adoption is permitted, the Company adopted this ASU upon issuance and it resulted in an immaterial reclassification within liabilities in the Consolidated Balance Sheets. As this ASU only impacts financial statement presentation, there will be no impact on the Company's financial position, results of operations, or EPS.

NOTE 2 - FEDERAL FUNDS SOLD AND SECURITIES BORROWED OR PURCHASED UNDER AGREEMENTS TO RESELL

Federal funds sold and securities borrowed or purchased under agreements to resell were as follows:

(Dollars in millions)	June 30, 2013	December 31, 2012
Federal funds	$69	$29
Securities borrowed	265	155
Resell agreements	777	917
Total federal funds sold and securities borrowed or purchased under agreements to resell	$1,111	$1,101

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which securities will be subsequently resold. Securities borrowed are primarily collateralized by corporate securities. The Company takes possession of all securities under agreements to resell and securities borrowed and performs the appropriate margin evaluation on the acquisition date based on market volatility, as necessary. It is the Company's policy to obtain possession of collateral with a fair value between 95% to 110% of the principal amount loaned under resale and securities borrowing agreements. The total market value of the collateral held was $1.0 billion and $1.1 billion at June 30, 2013 and December 31, 2012, of which $254 million and $246 million was repledged, respectively. The Company has also pledged $926 million and $727 million of trading assets to secure $934 million and $703 million of repurchase agreements at June 30, 2013 and December 31, 2012, respectively.

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Netting of Securities - Repurchase and Resell Agreements

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting agreements or similar agreements are discussed in Note 11, "Derivative Financial Instruments." Securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by a MRA. Under the terms of the MRA, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and netted.

The following table presents the Company's eligible securities borrowed or purchased under agreements to resell and securities sold under agreements to repurchase at June 30, 2013 and December 31, 2012:

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets		Held/Pledged Financial Instruments	Net Amount
June 30, 2013						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,042	$—	$1,042	[1, 2]	$1,033	$9
Financial liabilities:						
Securities sold under agreements to repurchase	1,869	—	1,869	[1]	1,869	—
December 31, 2012						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,072	$—	$1,072	[1,2]	$1,069	$3
Financial liabilities:						
Securities sold under agreements to repurchase	1,574	—	1,574	[1]	1,574	—

[1] None of the Company's repurchase and reverse repurchase transactions met the right of setoff criteria at June 30, 2013 and December 31, 2012.

[2] Excludes $69 million and $29 million of Fed funds sold which are not subject to a master netting agreement at June 30, 2013 and December 31, 2012, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 3 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

	June 30, 2013			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$793	$7	$22	$778
Federal agency securities	2,203	57	38	2,222
U.S. states and political subdivisions	248	10	2	256
MBS - agency	18,784	453	324	18,913
MBS - private	181	1	1	181
ABS	124	2	1	125
Corporate and other debt securities	37	3	—	40
Other equity securities[1]	873	1	—	874
Total securities AFS	$23,243	$534	$388	$23,389

	December 31, 2012			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$212	$10	$—	$222
Federal agency securities	1,987	85	3	2,069
U.S. states and political subdivisions	310	15	5	320
MBS - agency	17,416	756	3	18,169
MBS - private	205	4	—	209
ABS	214	5	3	216
Corporate and other debt securities	42	4	—	46
Other equity securities[1]	701	1	—	702
Total securities AFS	$21,087	$880	$14	$21,953

[1]At June 30, 2013, other equity securities was comprised of the following: $334 million in FHLB of Atlanta stock, $402 million in Federal Reserve Bank stock, $137 million in mutual fund investments, and $1 million of other. At December 31, 2012, other equity securities was comprised of the following: $229 million in FHLB of Atlanta stock, $402 million in Federal Reserve Bank stock, $69 million in mutual fund investments, and $2 million of other.

The following table presents interest and dividends on securities AFS:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
Taxable interest	$133	$153	$265	$322
Tax-exempt interest	3	4	5	8
Dividends[1]	7	23	16	45
Total interest and dividends	$143	$180	$286	$375

[1]Includes dividends on the Coke common stock of $15 million and $31 million for the three and six months ended June 30, 2012, respectively.

Securities AFS that were pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $9.3 billion and $10.6 billion at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, there were no securities AFS pledged under secured borrowing arrangements under which the

secured party has possession of the collateral and would customarily sell or repledge that collateral, other than in an event of default of the Company.

The amortized cost and fair value of investments in debt securities at June 30, 2013, by estimated average life, are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Distribution of Maturities 1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
U.S. Treasury securities	$1	$201	$591	$—	$793
Federal agency securities	63	1,391	594	155	2,203
U.S. states and political subdivisions	90	102	11	45	248
MBS - agency	1,539	10,915	2,926	3,404	18,784
MBS - private	—	142	39	—	181
ABS	87	35	2	—	124
Corporate and other debt securities	—	17	20	—	37
Total debt securities	$1,780	$12,803	$4,183	$3,604	$22,370
Fair Value:					
U.S. Treasury securities	$1	$208	$569	$—	$778
Federal agency securities	63	1,439	567	153	2,222
U.S. states and political subdivisions	92	108	12	44	256
MBS - agency	1,620	11,231	2,852	3,210	18,913
MBS - private	—	142	39	—	181
ABS	86	37	2	—	125
Corporate and other debt securities	—	19	21	—	40
Total debt securities	$1,862	$13,184	$4,062	$3,407	$22,515
Weighted average yield[1]	3.02 %	2.87 %	2.26 %	2.68 %	2.72 %

[1]Average yields are based on amortized cost and presented on a FTE basis.

Securities in an Unrealized Loss Position

The Company held certain investment securities where amortized cost exceeded fair market value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market price of securities fluctuates. At June 30, 2013, 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 in the Company's 2012 Annual Report on Form 10-K.

(Dollars in millions)	June 30, 2013 Less than twelve months Fair Value	Unrealized Losses	Twelve months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Temporarily impaired securities:						
U.S. Treasury securities	$569	$22	$—	$—	$569	$22
Federal agency securities	670	38	—	—	670	38
U.S. states and political subdivisions	1	—	20	2	21	2
MBS - agency	7,405	324	—	—	7,405	324
ABS	—	—	13	1	13	1
Total temporarily impaired securities	8,645	384	33	3	8,678	387
OTTI securities[1]:						
MBS - private	63	1	—	—	63	1

Total OTTI securities	63	1	—	—	63	1
Total impaired securities	$8,708	$385	$33	$3	$8,741	$388

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	December 31, 2012 Less than twelve months Fair Value	 Unrealized Losses	 Twelve months or longer Fair Value	 Unrealized Losses	 Total Fair Value	 Unrealized Losses
Temporarily impaired securities:						
Federal agency securities	$298	$3	$—	$—	$298	$3
U.S. states and political subdivisions	1	—	24	5	25	5
MBS - agency	1,212	3	—	—	1,212	3
ABS	—	—	13	2	13	2
Total temporarily impaired securities	1,511	6	37	7	1,548	13
OTTI securities[1]:						
ABS	—	—	3	1	3	1
Total OTTI securities	—	—	3	1	3	1
Total impaired securities	$1,511	$6	$40	$8	$1,551	$14

[1]Includes OTTI securities for which credit losses have been recorded in earnings in current or prior periods.

At June 30, 2013 and December 31, 2012, unrealized losses on securities that have been in a temporarily impaired position for longer than twelve months included municipal ARS and one ABS collateralized by 2004 vintage home equity loans. The municipal securities are backed by investment grade rated obligors; however, the fair value of these securities continues to be impacted by the lack of a functioning ARS market and the extension of time for expected refinance and repayment. No credit loss is expected on these securities. The ABS continues to receive timely principal and interest payments, and is evaluated quarterly for credit impairment. Cash flow analysis shows that the underlying collateral can withstand highly stressed loss assumptions without incurring a credit loss.

The portion of unrealized losses on securities that have been other-than-temporarily impaired that relates to factors other than credit is recorded in AOCI. Losses related to credit impairment on these securities are determined through estimated cash flow analyses and have been recorded in earnings in current or prior periods.

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

(Dollars in millions)	Three Months Ended June 30 2013	 2012	Six Months Ended June 30 2013	 2012
Gross realized gains	$1	$16	$4	$36
Gross realized losses	(1)	—	(1)	—
OTTI	—	(2)	(1)	(4)
Net securities gains	$—	$14	$2	$32

Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include default rates, prepayment rates, and loss severities. If, based on this analysis, the security is in an unrealized loss position and 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.

The Company continues to reduce existing exposure primarily through paydowns. In certain instances, the amount of impairment losses recognized in earnings includes credit losses on debt securities that exceeds the total impairment, and as a result, the securities may have unrealized gains in AOCI relating to factors other than credit.

Notes to Consolidated Financial Statements (Unaudited), continued

The securities that gave rise to credit impairments recognized during the three and six months ended June 30, 2013 and 2012, as shown in the table below, consisted of private MBS with a fair value of approximately $2 million and $140 million, respectively, at June 30, 2013 and 2012.

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
OTTI[1]	$—	$—	$—	$—
Portion of gains/(losses) recognized in OCI (before taxes)	—	2	1	4
Net impairment losses recognized in earnings	$—	$2	$1	$4

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

The following is a rollforward of credit losses recognized in earnings for the three and six months ended June 30, 2013 and 2012, related to securities for which the Company does not intend to sell and it is not more-likely-than-not that the Company will be required to sell as of the end of each period presented. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value when there has been a decline in expected cash flows.

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
Balance, beginning of period	$32	$27	$31	$25
Additions:				
OTTI credit losses on previously impaired securities	—	2	1	4
Reductions:				
Increases in expected cash flows recognized over the remaining life of the securities	—	(1)	—	(1)
Balance, end of period	$32	$28	$32	$28

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

	2013	2012
Default rate	6 - 9%	2 - 6%
Prepayment rate	7 - 8%	7 - 21%
Loss severity	61 - 74%	47 - 56%

Assumption ranges represent the lowest and highest lifetime average estimates of each security for which credit losses were recognized in earnings. Ranges may vary from period to period as the securities for which credit losses are recognized vary. Additionally, severity may vary widely when losses are few and large.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 4 - LOANS

Composition of Loan Portfolio

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

(Dollars in millions)	June 30, 2013	December 31, 2012
Commercial loans:		
C&I	$55,070	$54,048
Commercial real estate	4,308	4,127
Commercial construction	667	713
Total commercial loans	60,045	58,888
Residential loans:		
Residential mortgages - guaranteed	3,622	4,252
Residential mortgages - nonguaranteed[1]	23,341	23,389
Home equity products	14,682	14,805
Residential construction	635	753
Total residential loans	42,280	43,199
Consumer loans:		
Guaranteed student loans	5,431	5,357
Other direct	2,483	2,396
Indirect	11,151	10,998
Credit cards	641	632
Total consumer loans	19,706	19,383
LHFI	$122,031	$121,470
LHFS	$3,647	$3,399

[1]Includes $339 million and $379 million of loans carried at fair value at June 30, 2013 and December 31, 2012, respectively.

During the three months ended June 30, 2013 and 2012, the Company transferred $87 million and $687 million in LHFI to LHFS, and $5 million and $20 million in LHFS to LHFI, respectively. Additionally, during the three months ended June 30, 2013 and 2012, the Company sold $159 million and $907 million in loans and leases for a gain of $3 million and $30 million, respectively.

During the six months ended June 30, 2013 and 2012, the Company transferred $144 million and $1.1 billion in LHFI to LHFS, and $17 million and $31 million in LHFS to LHFI, respectively. Additionally, during the six months ended June 30, 2013 and 2012, the Company sold $662 million and $1.0 billion in loans and leases for a gain of $7 million and $36 million, respectively.

Credit Quality Evaluation

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

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is an individual loan’s risk assessment expressed according to the broad regulatory agency classifications of Pass or Criticized. The Company's risk rating system is granular, with multiple risk ratings in both the Pass and Criticized categories. Pass ratings reflect relatively low PDs; whereas, criticized assets have a higher PD. The granularity in Pass ratings assists in the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management

requirements. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets Especially Mentioned (or Special Mention), Adversely Classified, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the Criticized categories is between Accruing Criticized (which includes Special Mention and a portion of Adversely Classified) and Nonaccruing Criticized (which includes a portion of Adversely Classified and Doubtful and Loss). This distinction identifies those relatively higher risk

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loans for which there is a basis to believe that the Company will collect all amounts due from those where full collection is less certain.

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

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company's formal underwriting process, and refreshed FICO scores are obtained by the Company at least quarterly.

For government-guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At June 30, 2013 and December 31, 2012, 87% and 89%, respectively, of the guaranteed student loan portfolio was current with respect to payments. At June 30, 2013 and December 31, 2012, 82% and 83%, respectively, of the guaranteed residential loan portfolio was current with respect to payments. Loss exposure to the Company on these loans is mitigated by the government guarantee.

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

	Commercial Loans					
	C&I		Commercial real estate		Commercial construction	
(Dollars in millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Credit rating:						
Pass	$53,339	$52,292	$3,876	$3,564	$534	$506
Criticized accruing	1,504	1,562	378	497	110	173
Criticized nonaccruing	227	194	54	66	23	34
Total	$55,070	$54,048	$4,308	$4,127	$667	$713

	Residential Loans [1]					
	Residential mortgages - nonguaranteed		Home equity products		Residential construction	
(Dollars in millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current FICO score range:						
700 and above	$17,671	$17,410	$11,376	$11,339	$482	$561
620 - 699	3,730	3,850	2,244	2,297	107	123
Below 620[2]	1,940	2,129	1,062	1,169	46	69
Total	$23,341	$23,389	$14,682	$14,805	$635	$753

	Consumer Loans [3]					
	Other direct		Indirect		Credit cards	
(Dollars in millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current FICO score range:						
700 and above	$2,051	$1,980	$8,391	$8,300	$442	$435
620 - 699	367	350	2,141	2,038	155	152
Below 620[2]	65	66	619	660	44	45
Total	$2,483	$2,396	$11,151	$10,998	$641	$632

[1]Excludes $3.6 billion and $4.3 billion at June 30, 2013 and December 31, 2012, respectively, of guaranteed residential loans. At June 30, 2013 and December 31, 2012, the majority of these loans had FICO scores of 700 and above.

[2]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.
[3]Excludes $5.4 billion of guaranteed student loans at June 30, 2013 and December 31, 2012.

Notes to Consolidated Financial Statements (Unaudited), continued

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

	June 30, 2013				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$54,748	$78	$17	$227	$55,070
Commercial real estate	4,238	15	1	54	4,308
Commercial construction	644	—	—	23	667
Total commercial loans	59,630	93	18	304	60,045
Residential loans:					
Residential mortgages - guaranteed	2,967	38	617	—	3,622
Residential mortgages - nonguaranteed[1]	22,643	163	19	516	23,341
Home equity products	14,341	115	1	225	14,682
Residential construction	543	7	1	84	635
Total residential loans	40,494	323	638	825	42,280
Consumer loans:					
Guaranteed student loans	4,715	375	341	—	5,431
Other direct	2,462	16	1	4	2,483
Indirect	11,093	49	1	8	11,151
Credit cards	629	6	6	—	641
Total consumer loans	18,899	446	349	12	19,706
Total LHFI	$119,023	$862	$1,005	$1,141	$122,031

[1]Includes $339 million of loans carried at fair value, the majority of which were accruing current.
[2]Nonaccruing loans past due 90 days or more totaled $789 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

	December 31, 2012				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$53,747	$81	$26	$194	$54,048
Commercial real estate	4,050	11	—	66	4,127
Commercial construction	679	—	—	34	713
Total commercial loans	58,476	92	26	294	58,888
Residential loans:					
Residential mortgages - guaranteed	3,523	39	690	—	4,252
Residential mortgages - nonguaranteed[1]	22,401	192	21	775	23,389
Home equity products	14,314	149	1	341	14,805
Residential construction	625	15	1	112	753
Total residential loans	40,863	395	713	1,228	43,199
Consumer loans:					
Guaranteed student loans	4,769	556	32	—	5,357
Other direct	2,372	15	3	6	2,396
Indirect	10,909	68	2	19	10,998

Credit cards	619	7	6	—	632
Total consumer loans	18,669	646	43	25	19,383
Total LHFI	$118,008	$1,133	$782	$1,547	$121,470

[1]Includes $379 million of loans carried at fair value, the majority of which were accruing current.
[2]Nonaccruing loans past due 90 days or more totaled $975 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

Notes to Consolidated Financial Statements (Unaudited), continued

Impaired Loans

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

(Dollars in millions)	June 30, 2013			December 31, 2012		
	Unpaid Principal Balance	Amortized Cost[1]	Related Allowance	Unpaid Principal Balance	Amortized Cost[1]	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial loans:						
C&I	$113	$72	$—	$59	$40	$—
Commercial real estate	10	9	—	6	5	—
Commercial construction	48	47	—	45	45	—
Total commercial loans	171	128	—	110	90	—
Impaired loans with an allowance recorded:						
Commercial loans:						
C&I	81	70	17	46	38	6
Commercial real estate	7	3	—	15	7	1
Commercial construction	9	7	1	5	3	—
Total commercial loans	97	80	18	66	48	7
Residential loans:						
Residential mortgages - nonguaranteed	2,289	1,999	228	2,346	2,046	234
Home equity products	724	647	93	661	612	88
Residential construction	272	205	26	259	201	26
Total residential loans	3,285	2,851	347	3,266	2,859	348
Consumer loans:						
Other direct	15	15	2	14	14	2
Indirect	71	71	3	46	46	2
Credit cards	17	17	4	21	21	5
Total consumer loans	103	103	9	81	81	9
Total impaired loans	$3,656	$3,162	$374	$3,523	$3,078	$364

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

Included in the impaired loan balances above were $2.7 billion and $2.4 billion of accruing TDRs, at amortized cost, at June 30, 2013 and December 31, 2012, respectively, of which 96% and 95% were current, respectively. See Note 1, “Significant Accounting Policies,” to the Company's 2012 Annual Report on Form 10−K, for further information regarding the Company’s loan impairment policy.

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended June 30				Six Months Ended June 30			
	2013		2012		2013		2012	
(Dollars in millions)	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]
Impaired loans with no related allowance recorded:								
Commercial loans:								
C&I	$70	$1	$37	$—	$63	$1	$38	$—
Commercial real estate	9	—	59	1	8	—	63	1
Commercial construction	47	—	28	—	36	1	32	—
Total commercial loans	126	1	124	1	107	2	133	1
Impaired loans with an allowance recorded:								
Commercial loans:								
C&I	80	1	81	—	75	1	83	—
Commercial real estate	3	—	82	—	2	—	84	—
Commercial construction	8	—	66	—	7	—	67	1
Total commercial loans	91	1	229	—	84	1	234	1
Residential loans:								
Residential mortgages - nonguaranteed	2,002	27	2,255	20	2,008	49	2,260	42
Home equity products	648	5	535	7	652	10	539	13
Residential construction	205	3	232	3	206	5	237	5
Total residential loans	2,855	35	3,022	30	2,866	64	3,036	60
Consumer loans:								
Other direct	15	—	12	—	15	—	12	—
Indirect	72	1	14	1	74	2	15	1
Credit cards	17	1	25	—	19	1	26	1
Total consumer loans	104	2	51	1	108	3	53	2
Total impaired loans	$3,176	$39	$3,426	$32	$3,165	$70	$3,456	$64

[1]Of the interest income recognized during the three and six months ended June 30, 2013, cash basis interest income was $1 million and $6 million, respectively.
Of the interest income recognized during the three and six months ended June 30, 2012, cash basis interest income was $4 million and $8 million, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

Nonperforming assets are shown in the following table:

(Dollars in millions)	June 30, 2013	December 31, 2012
Nonaccrual/NPLs:		
Commercial loans:		
C&I	$227	$194
Commercial real estate	54	66
Commercial construction	23	34
Residential loans:		
Residential mortgages - nonguaranteed	516	775
Home equity products	225	341
Residential construction	84	112
Consumer loans:		
Other direct	4	6
Indirect	8	19
Total nonaccrual/NPLs	1,141	1,547
OREO[1]	198	264
Other repossessed assets	8	9
Nonperforming LHFS	48	37
Total nonperforming assets	$1,395	$1,857

[1]Does not include foreclosed real estate related to loans insured by the FHA or the VA. Proceeds due from the FHA and the VA are recorded as a receivable in other assets until the funds are received and the property is conveyed. The receivable amount related to proceeds due from the FHA or the VA totaled $177 million and $140 million at June 30, 2013 and December 31, 2012, 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 loan in a manner that ultimately results in the forgiveness of contractually specified principal balances.

At June 30, 2013 and December 31, 2012, the Company had $3 million and $1 million, respectively, in commitments to lend additional funds to debtors whose terms have been modified in a TDR.

Notes to Consolidated Financial Statements (Unaudited), continued

The number and amortized cost of loans modified under the terms of a TDR during the three and six months ended June 30, 2013, by type of modification, are shown in the following tables:

Three Months Ended June 30, 2013[1]

(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	29	$18	$—	$15	$33
Commercial real estate	1	—	—	—	—
Commercial construction	—	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	637	—	36	53	89
Home equity products	755	—	17	31	48
Residential construction	104	—	7	2	9
Consumer loans:					
Other direct	32	—	—	1	1
Indirect	831	—	—	16	16
Credit cards	155	—	1	—	1
Total TDRs	2,544	$18	$61	$118	$197

Six Months Ended June 30, 2013[1]

(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	96	$18	$2	$49	$69
Commercial real estate	5	—	4	1	5
Commercial construction	—	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	913	—	61	70	131
Home equity products	1,438	—	36	48	84
Residential construction	217	—	18	4	22
Consumer loans:					
Other direct	80	—	—	3	3
Indirect	1,734	—	—	33	33
Credit cards	386	—	2	—	2
Total TDRs	4,869	$18	$123	$208	$349

[1]Includes loans modified under the terms of a TDR that were charged-off during the period.
[2]Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and six months ended June 30, 2013, was $2 million.
[3]Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and six months ended June 30,

2013.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended June 30, 2012[1]				
	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	80	$—	$1	$3	$4
Commercial real estate	13	6	6	—	12
Commercial construction	5	1	—	10	11
Residential loans:					
Residential mortgages - nonguaranteed	199	—	21	—	21
Home equity products	457	—	33	2	35
Residential construction	140	—	1	20	21
Consumer loans:					
Other direct	27	—	—	1	1
Indirect	795	—	—	14	14
Credit cards	361	—	2	—	2
Total TDRs	2,077	$7	$64	$50	$121

(Dollars in millions)	Six Months Ended June 30, 2012[1]				
	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification [3]	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	183	$—	$2	$15	$17
Commercial real estate	23	12	7	2	21
Commercial construction	12	2	—	11	13
Residential loans:					
Residential mortgages - nonguaranteed	424	—	41	1	42
Home equity products	841	—	64	3	67
Residential construction	175	—	1	29	30
Consumer loans:					
Other direct	39	—	—	1	1
Indirect	795	—	—	14	14
Credit cards	863	—	5	—	5
Total TDRs	3,355	$14	$120	$76	$210

[1]Includes loans modified under the terms of a TDR that were charged-off during the period.
[2]Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and six months ended June 30, 2012, was $1 million.
[3]Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and six months ended June 30, 2012.

The preceding tables represent loans modified under the terms of a TDR during the three and six months ended June 30, 2013 and 2012; whereas, the following tables represent loans modified as a TDR over longer time periods that became 90 days or more delinquent during the three and six months ended June 30, 2013 and 2012, respectively.
For the three and six months ended June 30, 2013, the table below represents defaults on loans that were first modified between the periods January 1, 2012 and June 30, 2013, including loans modified under the terms of a TDR that were charged-off during the period.

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
(Dollars in millions)	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
C&I	19	$—	42	$—
Commercial real estate	3	—	4	3
Commercial construction	—	—	1	—
Residential loans:				
Residential mortgages	80	6	156	10
Home equity products	52	3	101	6
Residential construction	10	—	16	2
Consumer loans:				
Other direct	2	—	9	—
Indirect	49	1	88	1
Credit cards	35	—	79	1
Total TDRs	250	$10	496	$23

For the three and six months ended June 30, 2012, the table below represents defaults on loans that were first modified between the periods January 1, 2011 and June 30, 2012, including loans modified under the terms of a TDR that were charged-off during the period.

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
(Dollars in millions)	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
C&I	14	$1	25	$3
Commercial real estate	—	—	4	4
Commercial construction	4	4	7	6
Residential loans:				
Residential mortgages	28	9	56	14
Home equity products	38	3	81	6
Residential construction	6	—	17	2
Consumer loans:				
Other direct	—	—	2	—
Credit cards	57	—	135	1
Total TDRs	147	$17	327	$36

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.

Notes to Consolidated Financial Statements (Unaudited), continued

Concentrations of Credit Risk

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the U.S. The Company engages in limited international banking activities. The Company's total cross-border outstanding loans were $734 million and $562 million at June 30, 2013 and December 31, 2012, 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 June 30, 2013, the Company owned $42.3 billion in residential loans, representing 35% of total LHFI, and had $11.3 billion in commitments to extend credit on home equity lines and $8.6 billion in mortgage loan commitments. Of the residential loans owned at June 30, 2013, 9% were guaranteed by a federal agency or a GSE. At December 31, 2012, the Company owned $43.2 billion in residential loans, representing 36% of total LHFI, and had $11.7 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, 2012, 10% were guaranteed by a federal agency or a GSE.

Included in the residential mortgage portfolio were $12.6 billion and $13.3 billion of mortgage loans at June 30, 2013 and December 31, 2012, respectively, that included terms such as an interest only feature, a high LTV ratio, or a second lien position that may increase the Company's exposure to credit risk and result in a concentration of credit risk. Of these mortgage loans, $6.6 billion and $7.6 billion, respectively, were interest only loans, primarily with a ten year interest only period. Approximately $1.3 billion of those interest only loans at June 30, 2013, and $1.5 billion at December 31, 2012, were loans with no mortgage insurance and were either first liens with combined original LTV ratios in excess of 80% or were second liens. Additionally, the Company owned approximately $6.0 billion and $5.7 billion of amortizing loans with no mortgage insurance at June 30, 2013 and December 31, 2012, respectively, comprised of first liens with combined original LTV ratios in excess of 80% and second liens.

NOTE 5 - 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 June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
Balance at beginning of period	$2,205	$2,400	$2,219	$2,505
Provision for loan losses	152	302	356	615
(Benefit)/provision for unfunded commitments	(6)	(2)	2	2
Loan charge-offs	(233)	(397)	(506)	(860)
Loan recoveries	54	47	101	88
Balance at end of period	$2,172	$2,350	$2,172	$2,350
Components:				
ALLL	$2,125	$2,300		
Unfunded commitments reserve[1]	47	50		
Allowance for credit losses	$2,172	$2,350		

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

	Three Months Ended June 30, 2013			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$921	$1,087	$144	$2,152
Provision for loan losses	42	78	32	152
Loan charge-offs	(64)	(143)	(26)	(233)
Loan recoveries	20	24	10	54
Balance at end of period	$919	$1,046	$160	$2,125

	Three Months Ended June 30, 2012			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$901	$1,315	$132	$2,348
Provision for loan losses	49	230	23	302
Loan charge-offs	(94)	(274)	(29)	(397)
Loan recoveries	31	6	10	47
Balance at end of period	$887	$1,277	$136	$2,300

	Six Months Ended June 30, 2013			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$902	$1,131	$141	$2,174
Provision for loan losses	106	190	60	356
Loan charge-offs	(124)	(321)	(61)	(506)
Loan recoveries	35	46	20	101
Balance at end of period	$919	$1,046	$160	$2,125

	Six Months Ended June 30, 2012			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance at beginning of period	$964	$1,354	$139	$2,457
Provision for loan losses	87	488	40	615
Loan charge-offs	(220)	(576)	(64)	(860)
Loan recoveries	56	11	21	88
Balance at end of period	$887	$1,277	$136	$2,300

As discussed in Note 1, “Significant Accounting Policies,” to the Company's 2012 Annual Report on Form 10−K, the ALLL is composed of both specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for loans carried at fair value. Additionally, the Company records an immaterial allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss.

Notes to Consolidated Financial Statements (Unaudited), continued

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

	June 30, 2013							
	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	$208	$18	$2,851	$347	$103	$9	$3,162	$374
Collectively evaluated	59,837	901	39,090	699	19,603	151	118,530	1,751
Total evaluated	60,045	919	41,941	1,046	19,706	160	121,692	2,125
LHFI at fair value	—	—	339	—	—	—	339	—
Total LHFI	$60,045	$919	$42,280	$1,046	$19,706	$160	$122,031	$2,125

	December 31, 2012							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$138	$7	$2,859	$348	$81	$9	$3,078	$364
Collectively evaluated	58,750	895	39,961	783	19,302	132	118,013	1,810
Total evaluated	58,888	902	42,820	1,131	19,383	141	121,091	2,174
LHFI at fair value	—	—	379	—	—	—	379	—
Total LHFI	$58,888	$902	$43,199	$1,131	$19,383	$141	$121,470	$2,174

NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill is required to be tested for impairment on an annual basis, which is performed by the Company during the third quarter, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount or indicate that it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. The Company monitored events and circumstances during the first six months of 2013 and did not observe any factors that would more likely than not reduce the fair value of a reporting unit below its respective carrying value. Accordingly, goodwill was not tested for impairment during the six months ended June 30, 2013.

During the second quarter of 2013, branch-managed business banking clients were transferred from Wholesale Banking to Consumer Banking and Private Wealth Management, resulting in the reallocation of $300 million in goodwill. Also, as discussed in Note 15, "Business Segment Reporting," the Company reorganized its segment reporting structure and goodwill reporting units during the first quarter of 2012. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30 are as follows:

(Dollars in millions)	Retail Banking	Diversified Commercial Banking	CIB	W&IM	Consumer Banking and Private Wealth Management	Wholesale Banking	Total
Balance, January 1, 2013	$—	$—	$—	$—	$3,962	$2,407	$6,369
Intersegment transfers	—	—	—	—	300	(300)	—
Balance, June 30, 2013	$—	$—	$—	$—	$4,262	$2,107	$6,369
Balance, January 1, 2012	$4,854	$928	$180	$382	$—	$—	$6,344
Intersegment transfers	(4,854)	(928)	(180)	(382)	3,930	2,414	—

Acquisition of FirstAgain, LLC	—	—	—	—	32	—	32
Balance, June 30, 2012	$—	$—	$—	$—	$3,962	$2,414	$6,376

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Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

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

(Dollars in millions)	Core Deposit Intangibles	MSRs - Fair Value	Other	Total
Balance, January 1, 2013	$17	$899	$40	$956
Amortization	(7)	—	(5)	(12)
MSRs originated	—	203	—	203
Changes in fair value:				
Due to changes in inputs and assumptions [1]	—	250	—	250
Other changes in fair value [2]	—	(152)	—	(152)
Sale of MSRs	—	(1)	—	(1)
Balance, June 30, 2013	$10	$1,199	$35	$1,244
Balance, January 1, 2012	$38	$921	$58	$1,017
Amortization	(11)	—	(11)	(22)
MSRs originated	—	161	—	161
Changes in fair value:				
Due to changes in inputs and assumptions [1]	—	(102)	—	(102)
Other changes in fair value [2]	—	(112)	—	(112)
Sale of MSRs	—	(3)	—	(3)
Balance, June 30, 2012	$27	$865	$47	$939

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

[2] Represents changes due to the collection of expected cash flows, net of accretion, due to the passage of time.

Mortgage Servicing Rights

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

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and six months ended June 30, 2013 was $77 million and $153 million, respectively, and $80 million and $163 million for the three and six months ended June 30, 2012, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At June 30, 2013 and December 31, 2012, the total unpaid principal balance of mortgage loans serviced was $140.4 billion and $144.9 billion, respectively. Included in these amounts were $109.3 billion and $113.2 billion at June 30, 2013 and December 31, 2012, respectively, of loans serviced for third parties. During the six months ended June 30, 2013 and 2012, the Company sold MSRs, at a price approximating their fair value, on residential loans with an unpaid principal balance of $632 million and $1.4 billion, respectively.

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

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSRs at June 30, 2013 and December 31, 2012, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are shown in the table below. Substantially all of the increase in fair value during the six months ended June 30, 2013, was driven by an increase in prevailing interest rates during the six months ended June 30, 2013.

(Dollars in millions)	June 30, 2013		December 31, 2012	
Fair value of retained MSRs	$1,199		$899	
Prepayment rate assumption (annual)	10	%	16	%
Decline in fair value from 10% adverse change	$42		$50	
Decline in fair value from 20% adverse change	82		95	
Discount rate (annual)	11	%	11	%
Decline in fair value from 10% adverse change	$57		$37	
Decline in fair value from 20% adverse change	109		70	
Weighted-average life (in years)	6.7		4.9	
Weighted-average coupon	4.5	%	4.8	%

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 activities.

NOTE 7 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES

Certain Transfers of Financial Assets and related Variable Interest Entities

As discussed in Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2012 Annual Report on Form 10-K, the Company has transferred loans and securities in sale or securitization transactions in which the Company has, or had, continuing involvement. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities that are VIEs described below, nor has the Company provided any support it was not otherwise obligated to provide. Further, during the six months ended June 30, 2013, the Company evaluated whether any of its previous conclusions regarding whether it is the primary beneficiary of the VIEs described below should be changed based upon events occurring during the quarter. These evaluations did not result in changes to previous consolidation conclusions.

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

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement and supplements Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2012 Annual Report on Form 10-K.

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 redeemable for cash proceeds and servicing rights. The Company sold residential mortgage loans to these entities, which resulted in pre-tax gains of $124 million and $236 million, including servicing rights, for the three months ended June 30, 2013 and 2012, respectively and $281 million and $460 million for the six months ended June 30, 2013 and 2012, 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, and those representations and warranties are discussed in Note 12, “Reinsurance Arrangements and Guarantees.”

In a limited number of securitizations, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The received securities are carried at fair value as either trading assets or securities AFS. At June 30, 2013 and December 31, 2012, the fair value of securities received totaled $83 million and $98 million, respectively, and were valued using a third party pricing service.

The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power over the securitization. In almost all of its securitization transactions, the Company does not have power over the VIE as a result of these rights held by the master servicer. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. Total assets at June 30, 2013 and

December 31, 2012, of the unconsolidated trusts in which the Company has a VI are $390 million and $445 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, which is discussed in Note 12, "Reinsurance Arrangements and Guarantees."

Commercial and Corporate Loans

The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the CLOs. In addition to retaining certain securities issued by the CLOs, the Company also acts as collateral manager for these CLOs. The securities retained by the Company and the fees received as collateral manager represent a VI in the CLOs, which are considered to be VIEs. The Company has determined that it is the primary beneficiary of and, thus, has consolidated one of these CLOs as it has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. The Company's involvement with the CLO includes receiving fees for its duties as collateral manager, including eligibility for performance fees, as well as ownership in one of the senior interests in the CLO and certain preference shares of the CLO. Substantially all of the assets and liabilities of the CLO are loans and issued debt, respectively. The loans are classified within LHFS at fair value and the debt is included within long-term debt at fair value on the Company's Consolidated Balance Sheets. See Note 13, "Fair Value Election and Measurement," for a discussion of the Company's methodologies for estimating the fair values of these financial instruments. At June 30, 2013, the Company's Consolidated Balance Sheets reflected $289 million of loans held by the CLO and $285 million of debt issued by the CLO. At December 31, 2012, the Company's Consolidated Balance Sheets reflected $319 million of loans held by the CLO and $286 million of debt issued by the CLO. Although the Company consolidates the CLO, its creditors have no recourse to the general credit of the Company, as the liabilities of the CLO are paid only to the extent of available cash flows from the CLO's assets.

For the remaining CLOs, which are also considered to be VIEs, the Company has determined that it is not the primary beneficiary as it does not have an obligation to absorb losses or the right to receive benefits from the entities that could potentially be significant to the VIE. The Company's preference share exposure was valued at $3 million at June 30, 2013 and December 31, 2012. The Company's only remaining involvement with these VIEs is through its collateral manager role. The Company receives fees for managing the assets of these vehicles; these fees are considered adequate compensation and are commensurate with the level of effort required to provide such services. The fees received by the Company from these entities are recorded as trust and investment management income in the Consolidated Statements of Income. Senior fees earned by the Company are generally not considered at risk; however, subordinate fees earned by the Company are subject to the availability of cash flows and to the priority of payments. At June 30, 2013 and December 31, 2012, these VIEs had $1.7 billion and $1.8 billion, respectively, of estimated assets and $1.7 billion of estimated liabilities.

Student Loans

During 2006, the Company completed a securitization of government-guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the related residual interest in the SPE. The Company concluded that this securitization of government-guaranteed student loans (the "Student Loan entity") should be consolidated. At June 30, 2013 and December 31, 2012, the Company's Consolidated Balance Sheets reflected $364 million and $384 million, respectively, of assets held by the Student Loan entity and $360 million and $380 million, respectively, of debt issued by the Student Loan entity.

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

provided to the Company by the subservicer.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The Company's maximum exposure to loss at June 30, 2013 and December 31, 2012, includes current senior interests held in trading securities, which have fair values of $62 million and $52 million, respectively.

As further discussed in Note 13, "Fair Value Election and Measurement," the Company valued these interests by constructing a pricing matrix of values based on a range of overcollateralization levels that are derived from discussions with the dealer community along with limited trade data. The primary assumptions and inputs considered by the

Company in valuing these retained interests include prepayment speeds, credit losses, and market yield. 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 21 years on a weighted average basis. The expected market yield ranged from 9.5% to 12.0% at June 30, 2013 based on discussion with the dealer community with limited trade data adjusted for specific deal factors. At June 30, 2013, a 10% and 20% adverse change in the assumed market yield results in declines of approximately $6 million and $11 million, respectively, in the fair value of these securities. In evaluating the impact of credit losses, consideration was given to the underlying collateral of the VIEs, which is highly concentrated, and as a result, the default or deferral of certain large exposures adversely impacts the value of the interests. The Company estimates that if each of the VIEs in which the Company holds retained positions experienced one or two additional large deferrals or defaults, it should not have a significant impact on the fair value of the retained securities. However, should three additional large deferrals or defaults of an underlying collateral obligation occur in each of these VIEs, the fair value of the retained securities would decline $13 million.

At June 30, 2013 and December 31, 2012, the total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss were $1.1 billion and $1.2 billion, respectively. 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 six months ended June 30, 2013 that changed the Company's sale accounting conclusion.

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

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
Cash flows on interests held[1]:				
Residential Mortgage Loans[2]	$11	$8	$17	$15
Commercial and Corporate Loans	—	—	1	—
CDO Securities	1	1	1	1
Total cash flows on interests held	$12	$9	$19	$16
Servicing or management fees[1]:				
Residential Mortgage Loans[2]	$1	$1	$1	$1
Commercial and Corporate Loans	2	2	5	5
Total servicing or management fees	$3	$3	$6	$6

[1] The transfer activity is related to unconsolidated VIEs.

[2] Does not include GSE mortgage loan transfers

Portfolio balances and delinquency balances based on accruing loans 90 days or more past due and all nonaccrual loans at June 30, 2013 and December 31, 2012, and net charge-offs related to managed portfolio loans (both those that are owned or consolidated by the Company and those that have been transferred) for the three and six months ended June 30, 2013 and 2012 are as follows:

	Portfolio Balance[1]		Past Due[2]		Net Charge-offs			
					Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	2013	2012	2013	2012
Type of loan:								
Commercial	$60,045	$58,888	$322	$320	$44	$63	$89	$164
Residential	42,280	43,199	1,463	1,941	119	268	275	565
Consumer	19,706	19,383	361	68	16	19	41	43

Total loan portfolio	122,031	121,470	2,146	2,329	179	350	405	772
Managed securitized loans:								
Commercial	1,732	1,767	24	23	—	—	—	—
Residential	102,268	104,877	1,673 [3]	2,186 [3]	6	9	14	16
Total managed loans	$226,031	$228,114	$3,843	$4,538	$185	$359	$419	$788

[1]Excludes $3.6 billion and $3.4 billion of LHFS at June 30, 2013 and December 31, 2012, respectively.
[2]Excludes $49 million and $38 million of past due LHFS at June 30, 2013 and December 31, 2012, respectively.
[3]Excludes loans that have completed the foreclosure or short sale process (i.e., involuntary prepayments).

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Other Variable Interest Entities

The Company also has involvement with VIEs from business activities as further discussed in Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2012 Annual Report on Form 10-K.

Total Return Swaps

The Company has involvement with various VIEs related to its TRS business. At June 30, 2013 and December 31, 2012, the Company had $1.8 billion and $1.9 billion, respectively, in senior financing outstanding to VIEs, which was 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 $1.8 billion and $1.9 billion at June 30, 2013 and December 31, 2012, respectively, and the Company had entered into mirror TRS contracts with third parties with the same outstanding notional amounts. At June 30, 2013, the fair values of these TRS assets and liabilities were $30 million and $26 million, respectively, and at December 31, 2012, the fair values of these TRS assets and liabilities were $51 million and $46 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 third parties. 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 primarily within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for various investments. The Company has determined that the related partnerships are VIEs. For partnerships where the Company operates strictly as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. At June 30, 2013 and December 31, 2012, total assets, which consist primarily of fixed assets and cash attributable to the consolidated entities, were $3 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 not material at June 30, 2013 and December 31, 2012. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During the three and six months ended June 30, 2013 and 2012, 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 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 in these partnerships were not included in the Consolidated Balance Sheets at June 30, 2013 and December 31, 2012. The limited partner interests had carrying values of $206 million and $186 million at June 30, 2013 and December 31, 2012, respectively, and are recorded in other assets in the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these investments totaled $541 million and $505 million at June 30, 2013 and December 31, 2012, respectively. The Company's maximum exposure to loss would be borne by the loss of the equity investments along with $266 million and $236 million of loans, interest-rate swaps, or letters of credit issued by the Company to the entities at June 30, 2013 and December 31, 2012, 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 entities upon the entities meeting certain conditions. When these

conditions are met, the Company will invest these additional amounts in the entities.
Additionally, the Company owns noncontrolling interests in funds whose purpose is to invest in community developments. At June 30, 2013 and December 31, 2012, the Company's investment in these funds totaled $71 million and $63 million, respectively, and the Company's maximum exposure to loss on its equity investments, which is comprised of its investments in the funds plus any additional unfunded equity commitments, was $157 million and $110 million, respectively.

When the Company owns both the limited partner and general partner interests or acts as the indemnifying party, the Company consolidates the entities. At June 30, 2013 and December 31, 2012, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated non-VIE partnerships were $229 million and $239 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were $95 million and $100 million, respectively.

During 2012, the Company decided to sell certain affordable housing properties, and accordingly, recorded an impairment charge to adjust the carrying values to their estimated net realizable values. At June 30, 2013, market indicators remain consistent with these carrying values and marketing efforts continue with an expected disposition in 2013.

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, thus, are not evaluated for consolidation under the guidance. Accordingly, the Company continues to apply the consolidation guidance in effect prior to the issuance of the existing guidance to interests in funds that qualify for the deferral.

The Company has concluded that some of the Funds are VIEs. However, the Company has concluded that it is not the primary beneficiary of these funds as the Company does not absorb a majority of the expected losses nor expected returns of the funds. The Company’s exposure to loss is limited to the investment advisor and other administrative fees it earns and if applicable, any equity investments. The total unconsolidated assets of these funds at June 30, 2013 and December 31, 2012, were $301 million and $372 million, respectively.

NOTE 8 – NET INCOME PER COMMON SHARE

Equivalent shares of 21 million and 26 million related to common stock options and common stock warrants outstanding at June 30, 2013 and 2012, respectively, were excluded from the computations of diluted income per average common share because they would have been anti-dilutive.

Reconciliations of net income to net income available to common shareholders and the difference between average basic common shares outstanding and average diluted common shares outstanding are included below.

	Three Months Ended June 30		Six Months Ended June 30	
(In millions, except per share data)	2013	2012	2013	2012
Net income	$377	$275	$729	$525
Preferred dividends	(9)	(3)	(18)	(6)
Dividends and undistributed earnings allocated to unvested shares	(3)	(2)	(6)	(4)
Net income available to common shareholders	$365	$270	$705	$515
Average basic common shares	535	534	535	534
Effect of dilutive securities:				
Stock options	2	1	2	1
Restricted stock	3	2	3	2
Average diluted common shares	540	537	540	537
Net income per average common share - diluted	$0.68	$0.50	$1.31	$0.96
Net income per average common share - basic	$0.68	$0.51	$1.32	$0.97

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NOTE 9 - INCOME TAXES

The provision for income taxes was $146 million and $91 million for the three months ended June 30, 2013 and 2012, respectively, representing effective tax rates of 28% and 25%, respectively. For the six months ended June 30, 2013 and 2012, the provision for income taxes was $297 million and $160 million, respectively, representing effective tax rates of 29% and 23%, respectively. The Company calculated the provision for income taxes for the three and six months ended June 30, 2013, by applying the estimated annual effective tax rate to year-to-date pre-tax income. For the three and six months ended June 30, 2012, the provision for income taxes was calculated discretely based on actual year-to-date results. Interest and penalties related to tax matters are recorded as a component of the income tax provision.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company sponsors various short-term incentive plans and LTIs for eligible employees, which may be delivered through various incentive programs, including stock options, RSUs, restricted stock, and LTI cash. AIP is the Company's short-term cash incentive plan for key employees that provides for potential annual cash awards based on the Company's performance and/or the achievement of business unit and individual performance objectives. Awards under the LTI cash plan generally cliff vest over a period of three years from the date of the award and are paid in cash. All incentive awards are subject to clawback provisions. Compensation expense for the AIP and LTI cash plans was $39 million and $40 million for the three months ended June 30, 2013 and 2012, respectively and $78 million and $77 million for the six months ended June 30, 2013 and 2012, respectively. For the three and six months ended June 30, 2013, the Company's AIP plan included a higher number of eligible participants, of which some participants previously received compensation under other incentive plans.

Stock-Based Compensation

The Company provides stock-based awards through the 2009 Stock Plan (as amended and restated effective January 1, 2011) under which the Compensation Committee of the Board of Directors has the authority to grant stock options, restricted stock, and RSUs to key employees of the Company. Some awards may have performance or other conditions, such as vesting tied to the Company's total shareholder return relative to a peer group or vesting tied to the achievement of an absolute financial performance target. Under the 2009 Stock Plan, approximately 21 million shares of common stock are authorized and reserved for issuance, of which no more than 17 million shares may be issued as restricted stock or stock units. At June 30, 2013, 17 million shares were available for grant, including 9 million shares available to be issued as restricted stock.

Stock options are granted at an exercise price that is no less than the fair market value of a share of SunTrust common stock on the grant date and may be either tax-qualified incentive stock options or non-qualified stock options. Stock options typically vest pro-rata over three years and generally have a maximum contractual life of ten years. Upon exercise, shares are generally issued from treasury stock. Upon exercise, the weighted average fair value of options granted during the first six months of 2013 and 2012 were $7.37 and $7.83 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions for the six months ended June 30:

	2013		2012	
Dividend yield	1.28	%	0.91	%
Expected stock price volatility	30.98		39.88	
Risk-free interest rate (weighted average)	1.02		1.07	
Expected life of options	6 years		6 years	

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

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2013	2012	2013	2012
Stock-based compensation expense:				
Stock options	$1	$2	$4	$6
Restricted stock	8	8	15	15
RSUs	4	4	13	18
Total stock-based compensation expense	$13	$14	$32	$39

Notes to Consolidated Financial Statements (Unaudited), continued

The recognized stock-based compensation tax benefit was $5 million and $6 million for the three months ended June 30, 2013 and 2012, respectively, and $12 million and $15 million for the six months ended June 30, 2013 and 2012, respectively.

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans ("Retirement Benefit Plans") during the first six months of 2013. The expected long-term rate of return on plan assets for the Retirement Benefit Plans is 7% for 2013.
Anticipated employer contributions for 2013 are $8 million for the SERP. During the three and six months ended June 30, 2013, the actual contributions/benefit payments were $1 million and $4 million, respectively.
SunTrust contributed less than $1 million to the Postretirement Welfare Plan during the three and six months ended June 30, 2013. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2013 in the amount of $3 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare Plan is 5% for 2013.

Components of net periodic benefit for the three and six months ended June 30, were as follows:

	Three Months Ended June 30			
	2013		2012	
(Dollars in millions)	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Interest cost	$28	$2	$31	$1
Expected return on plan assets	(47)	(2)	(43)	(1)
Recognized net actuarial loss	7	—	6	—
Net periodic benefit	($12)	$—	($6)	$—

	Six Months Ended June 30			
	2013		2012	
(Dollars in millions)	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Interest cost	$56	$3	$60	$3
Expected return on plan assets	(93)	(3)	(86)	(3)
Recognized net actuarial loss	13	—	12	—
Net periodic benefit	($24)	$—	($14)	$—

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

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. The Company minimizes the credit risk of derivatives by entering into transactions with counterparties with defined exposure limits based on credit quality that are reviewed periodically by the Company's Credit Risk Management division. The Company's derivatives may also be governed by an ISDA or other master agreement, and depending on the nature of the derivative, bilateral collateral agreements are typically in place as well. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legal right of offset with that counterparty, the Company considers its exposure to the counterparty to be the net market value of its derivative positions with that counterparty if an asset, adjusted for held collateral. At June 30, 2013, net derivative asset positions were $1.2 billion, representing the $2.0 billion of derivative gains adjusted for collateral of $0.8 billion that the Company held in relation to these gain positions. At December 31, 2012, net derivative asset positions were $1.8 billion, representing $2.6 billion of derivative gains, adjusted for collateral of $0.8 billion that the Company held in relation to these gain positions.

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

Derivative instruments are priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to recognize. Generally, the expected loss of each counterparty is estimated using the Company's internal risk rating system. The risk rating system utilizes counterparty-specific PD and LGD estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. Additionally, counterparty exposure is evaluated by offsetting positions that are subject to master netting arrangements, as well as by considering the amount of marketable collateral securing the position. All counterparties and defined exposure limits are explicitly approved. Counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach is also used by the Company to estimate its own credit risk on derivative liability positions. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately $19 million and $29 million at June 30, 2013 and December 31, 2012, respectively.

The majority of the Company’s derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies, which are contained in industry standard master netting agreements, may be considered events of default. Should the Bank be in default under any of these provisions, the Bank’s counterparties would be permitted to close-out net at amounts that would approximate the then-fair values of the derivatives resulting in 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 $1.0 billion in fair value at June 30, 2013 and $1.3 billion at December 31, 2012, 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. At June 30, 2013, 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 $5 million in fair value liabilities as of June 30, 2013. For illustrative purposes, if the Bank were downgraded to Baa3/BBB-,

ATEs would be triggered in derivative liability contracts that had a total fair value of $4 million at June 30, 2013; ATEs do not exist at lower ratings levels. At June 30, 2013, $1.0 billion in fair value of derivative liabilities were subject to CSAs, against which the B