IPG PHOTONICS CORP
Form 4
March 22, 2016

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Ness Trevor

(Last) (First) (Middle)

C/O IPG PHOTONICS CORPORATION, 50 OLD WEBSTER ROAD

(Street)

OXFORD, MA 01540

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
IPG PHOTONICS CORP [IPGP]

3. Date of Earliest Transaction (Month/Day/Year)
03/18/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP, Worldwide Sales & Mrkting

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/18/2016		S (1)		1,250	D	$ 94.41 (2)	11,431	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Ness Trevor C/O IPG PHOTONICS CORPORATION 50 OLD WEBSTER ROAD OXFORD, MA 01540			SVP, Worldwide Sales & Mrkting	

Signatures

/s/ Angelo P. Lopresti, Attorney-in-fact	03/21/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sales reported in this Form 4 were effected pursuant to a Rule 10b5-1 trading plan adopted by the Reporting Person on December 14, 2015.

(2) The reported transaction involves sales transactions from $94.00 to $94.92 per share. The weighted average price per share was $94.41. The Reporting Person undertakes to provide upon request by the SEC staff, the Issuer or a security holder of the Issuer information regarding the number of shares sold at each separate price.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. #cceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;">
(240
)

202

120

264

Provision/(benefit) for income taxes [3]
29

18

(93
)

84

47

85

Net income/(loss) including income attributable to noncontrolling interest
50

85

(147
)

118

73

179

Net income attributable to noncontrolling interest
—

(1
)

—

2

Explanation of Responses:

—

1

Net income/(loss)

$50

$86

($147
)

$116

$73

$178

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

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Six Months Ended June 30, 2012 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Average total assets	$46,222	$63,979	$35,512	$30,332	$1,340	$177,385
Average total liabilities	77,839	54,234	4,088	21,185	(325)	157,021
Average total equity	—	—	—	—	20,364	20,364
Net interest income	$1,263	$862	$257	$220	($17)	$2,585
FTE adjustment	—	61	—	2	—	63
Net interest income - FTE [1]	1,263	923	257	222	(17)	2,648
Provision for credit losses [2]	272	168	331	—	(154)	617
Net interest income/(loss) after provision for credit losses	991	755	(74)	222	137	2,031
Total noninterest income	662	762	336	61	(5)	1,816
Total noninterest expense	1,387	1,030	686	(11)	(5)	3,087
Income/(loss) before provision/(benefit) for income taxes	266	487	(424)	294	137	760
Provision/(benefit) for income taxes [3]	96	137	(170)	103	57	223
Net income/(loss) including income attributable to noncontrolling interest	170	350	(254)	191	80	537
Net income attributable to noncontrolling interest	—	8	—	5	(1)	12
Net income/(loss)	$170	$342	($254)	$186	$81	$525

(Dollars in millions)	Six Months Ended June 30, 2011 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Average total assets	$43,329	$61,772	$33,947	$31,082	$1,659	$171,789
Average total liabilities	77,283	54,468	3,559	15,202	(21)	150,491
Average total equity	—	—	—	—	21,298	21,298
Net interest income	$1,239	$789	$232	$240	$8	$2,508
FTE adjustment	—	51	—	3	1	55
Net interest income - FTE [1]	1,239	840	232	243	9	2,563
Provision for credit losses [2]	379	321	376	—	(237)	839
Net interest income/(loss) after provision for credit losses	860	519	(144)	243	246	1,724
Total noninterest income	731	791	156	135	(18)	1,795
Total noninterest expense	1,433	1,086	526	(19)	(19)	3,007
Income/(loss) before provision/(benefit) for income taxes	158	224	(514)	397	247	512
Provision/(benefit) for income taxes [3]	58	39	(199)	150	98	146
Net income/(loss) including income attributable to noncontrolling interest	100	185	(315)	247	149	366

Net income attributable to noncontrolling interest	—	4	—	5	(1)	8
Net income/(loss)	$100	$181	($315)	$242	$150	$358

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

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

Important Cautionary Statement About Forward-Looking Statements

This report may contain forward-looking statements. Statements regarding (i) future levels of risk-weighted assets and capital ratios, net charge-offs, NPLs, net interest margin, net interest income, commercial loan swap income, mortgage repurchase demands and the mortgage repurchase reserve and related provision expense, interchange revenue, other real estate expense, noninterest expense, loan balances, deposits, expense savings, and the securities portfolio; (ii) future changes or growth in loans, net income as a result of improved credit quality, the number of client relationships, delinquencies, our loan portfolio and our government-guaranteed securities portfolio; (iii) our expectations regarding our future ability to mitigate the impact of card fees lost as a result of regulatory changes; and (iv) the likelihood and potential impact of reclassifying performing home equity lines that are subordinate to delinquent first mortgages into NPLs, are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words “believes,” “expects,” “anticipates,” “estimates,” “intends “plans,” “targets,” “initiatives,” “potentially,” “probably,” “projects,” “outlook” or similar expressions or future conditional ver such as “may,” “will,” “should,” “would,” and “could.” Such statements are based upon the current beliefs and expectations of management and on information currently available to management. Such statements speak as of the date hereof, and we do not assume any obligation to update the statements made herein or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events.
Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, and include risks discussed in this MD&A and in other periodic reports that we file with the SEC. Those factors include: as one of the largest lenders in the Southeast and Mid-Atlantic U.S. and a provider of financial products and services to consumers and businesses across the U.S., our financial results have been, and may continue to be, materially affected by general economic conditions, particularly unemployment levels and home prices in the U.S., and a deterioration of economic conditions or of the financial markets may materially adversely affect our lending and other businesses and our financial results and condition; legislation and regulation, including the Dodd-Frank Act, as well as future legislation and/or regulation, could require us to change certain of our business practices, reduce our revenue, impose additional costs on us, or otherwise adversely affect our business operations and/or competitive position; we are subject to capital adequacy and liquidity guidelines and, if we fail to meet these guidelines, our financial condition would be adversely affected; loss of customer deposits and market illiquidity could increase our funding costs; we rely on the mortgage secondary market and GSEs for some of our liquidity; we are subject to credit risk; our ALLL may not be adequate to cover our eventual losses; we may have more credit risk and higher credit losses to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral; we will realize future losses if the proceeds we receive upon liquidation of nonperforming assets are less than the carrying value of such assets; a downgrade in the U.S. government's sovereign credit rating, or in the credit ratings of instruments issued, insured or guaranteed by related institutions, agencies or instrumentalities, could result in risks to us and general economic conditions that we are not able to predict; the failure of the European Union to stabilize the fiscal condition and creditworthiness of its weaker member economies, such as Greece, Portugal, Spain, Hungary, Ireland, and Italy, could have international implications potentially impacting global financial institutions, the financial markets, and the economic recovery underway in the U.S.; weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may continue to adversely affect us; we are subject to certain risks related to originating and selling mortgages, and may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or as a result of certain breaches of our servicing agreements, and this could harm our liquidity, results of operations, and financial condition; financial difficulties or credit downgrades of mortgage and bond insurers may adversely affect our servicing and investment portfolios; we may be terminated as a

servicer or master servicer, be required to repurchase a mortgage loan or reimburse investors for credit losses on a mortgage loan, or incur costs, liabilities, fines and other sanctions if we fail to satisfy our servicing obligations, including our obligations with respect to mortgage loan foreclosure actions; we are subject to risks related to delays in the foreclosure process; we may continue to suffer increased losses in our loan portfolio despite enhancement of our underwriting policies and practices; our mortgage production and servicing revenue can be volatile; changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity; changes in interest rates could also reduce the value of our MSRs and mortgages held for sale, reducing our earnings; the fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings; depressed market values for our stock may require us to write down goodwill; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; consumers may decide not to use banks to complete their financial transactions, which could affect net income; we have businesses other than banking which subject us to a variety of risks;

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

INTRODUCTION

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

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

The following analysis of our financial performance for the three and six months ended June 30, 2012, should be read in conjunction with the consolidated financial statements, notes to consolidated financial statements, and other information contained in this document and our Annual Report on Form 10-K for the year ended December 31, 2011. Certain reclassifications have been made to prior year consolidated financial statements and related information to conform them to the June 30, 2012 presentation. In the MD&A, net interest income, the net interest margin, and the efficiency ratio are presented on an FTE basis. The FTE basis adjusts for the tax-favored status of net interest income

from certain loans and investments. We believe this measure to be the preferred industry measurement of net interest income and it enhances comparability of net interest income arising from taxable and tax-exempt sources. Additionally, we present certain non-U.S. GAAP metrics to assist investors in understanding management's view of particular financial measures, as well as, to align presentation of these financial measures with peers in the industry who may also provide a similar presentation. Reconcilements for all non-U.S. GAAP measures are provided below in Table 1, Selected Quarterly Financial Data.

EXECUTIVE OVERVIEW
Economic and regulatory
Economic indicators fluctuated during the first six months of 2012 after remaining relatively unchanged during 2011. Unemployment declined from year-end levels but remained unchanged during the second quarter, while consumer confidence and the equity markets improved in the first quarter but declined in the second quarter. The unemployment rate, which fell below 9% during the fourth quarter of 2011, declined modestly during the first quarter of 2012 but remained steady during the second quarter and was still above 8% at June 30, 2012. Consumer confidence grew during the first quarter of 2012, as consumer spending increased amidst improving labor market conditions and subdued consumer price inflation, but declined during the second quarter as a result of a continued sluggish economic recovery in the U.S., continued concerns over the health of the European Union, and reports of slowing growth in other emerging economies. The U.S. housing market continued to be weak as evidenced by the large inventory of foreclosed or distressed properties. Additionally, home prices remain under pressure and construction of new single-family homes remain at historically low levels. While some actions have been taken during 2012 to ease the European sovereign debt crisis, uncertainty in the direction of the financial markets continues to exist. As of June 30, 2012, we had no direct exposure to sovereign debt of European countries experiencing significant economic, fiscal, and/or political strains. See additional discussion of European debt exposure in "Other Market Risk" in this MD&A.
Amidst the economic conditions seen during the first half of 2012, the Federal Reserve indicated in June that it expects to maintain key interest rates at exceptionally low levels, at least through late 2014. Additionally, the Federal Reserve continues to conduct accommodative monetary policy through the maintenance of large portfolios of U.S. Treasury notes and bonds and agency MBS and will continue to do so through the end of 2012. The Federal Reserve has also indicated that it is prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions. The Federal Reserve outlook remains for moderate economic growth over coming quarters, a relatively high unemployment rate, and the expectation of stable longer-term inflation.
Regulatory and financial reform efforts continued in the first half of 2012, as regulatory agencies proposed and worked to finalize numerous rules. The Federal Reserve's final rules related to debit card interchange fees that became effective in the fourth quarter of 2011 continued to cause a significant decrease in our interchange revenue. The estimated impact of this rule has reduced our interchange revenue by approximately $40 - $50 million per quarter. However, we continue to expect to mitigate about 50% of the approximately $300 million combined annual revenue reductions from rules related to debit card interchange fees and Regulation E during the remainder of 2012 and into 2013. Inherent in this expectation is client acceptance of certain deposit-related fees for value-added services we provide. See additional discussion in the “Noninterest Income” section of this MD&A.
In June 2012, the Federal Reserve and other U.S. regulators issued a NPR, related to capital adequacy rules, to address implementation of the BCBS's Basel III framework for financial institutions in the U.S . While much of the NPR was consistent with the BCBS's Basel III framework that was updated in June of 2011, we have noted some substantial differences from that original framework. We continue our analysis of the NPR; however, as currently proposed, it appears that risk-weighted assets will increase primarily due to the ranges of risk-weightings for residential mortgages and home equity loans, resulting in a decline in our capital ratios. Under the proposed rules, we estimate our current Tier 1 common ratio would be approximately 8.0%, which is comfortably in excess of the proposed requirements. The regulatory agencies are asking financial institutions to provide comment on the NPR by September 7, 2012. The agencies are expected to consider the feedback and draft a final rule, which could take several quarters to complete. Accordingly, the final rule may differ from the current NPR. Further, the NPR indicates a phase-in for the new capital rules with the proposed risk-weightings requirement not becoming effective until 2015. Notwithstanding the uncertainty surrounding the timing and content of the final rule, our current Tier 1 common ratio estimate that was determined using the NPR assumptions did not include the effect of any mitigating actions we may undertake to offset some of the anticipated impact of the proposed capital changes. See additional discussion in the "Capital Resources" section of this MD&A.

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

“Contingencies,” to the Consolidated Financial Statements in this Form 10-Q and "Nonperforming Assets" in this MD&A. The Consent Order requires us to improve certain mortgage servicing and foreclosure processes and to retain an independent consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010 to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and prepare a written report detailing the findings. Our work required to comply with the Federal Reserve’s Consent Order continues. We note that certain aspects of the scope of the foreclosure review have not been finalized. On June 21, 2012, the OCC and the Federal Reserve released guidance that will be used in determining the compensation or other remedy that borrowers will receive for financial injury identified during the independent foreclosure review. Under the guidance, remediation for injuries may include lump-sum payments, suspension or rescission of a foreclosure, a loan modification or other loss mitigation assistance, correction of

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credit reports, or correction of deficiency amounts and records. For each instance requiring financial remediation, lump-sum payments can range from $500 to, in the most egregious cases, $125,000 plus an amount equal to the equity in the house. We are currently incurring the costs associated with the Consent Order required foreclosure file review. Until the independent foreclosure review has been finalized, we are unable to accurately estimate the amount of additional costs for remediation payments and program administration, however costs may increase from current levels. We also continue with settlement discussions with the U.S. and States Attorneys General related to mortgage servicing claims as discussed in Note 13, "Contingencies" to the Consolidated Financial Statements in this Form 10-Q. We accrued for the anticipated cost of resolving these and other potential claims in our 2011 financial results.

Capital

The Federal Reserve completed its most recent CCAR for the nineteen largest U.S. bank holding companies in March 2012. The Federal Reserve's review indicated that our capital exceeded requirements throughout the Supervisory Stress Test time horizon without any additional capital actions. Additionally, the Federal Reserve did not object to us maintaining our current quarterly common stock dividend of $0.05 per share and our plans to redeem certain trust preferred securities at such time as their governing documents permit, including when these securities are no longer expected to qualify as Tier 1 capital. Accordingly, during the first and second quarters of 2012, we declared a quarterly common stock dividend of $0.05 per share and in June 2012 we redeemed $38 million of the outstanding trust preferred securities and commenced the redemption of an additional $1.2 billion, which was subsequently completed in July as planned.

As a result of the Federal Reserve objecting to certain other capital actions in our CCAR submission, we submitted a revised capital plan in June 2012. In the revised submission, we did not request any incremental return of capital due to the close proximity of the revised submission to the 2013 CCAR process, which is expected to commence in the fourth quarter of 2012 and will provide us an opportunity to consider future capital deployment alternatives. We expect that the Federal Reserve will complete their review of our revised capital plan by the end of the third quarter.

Our capital remained strong at June 30, 2012, as capital levels increased as a result of strong year to date earnings. Our Tier 1 common equity ratio increased to 9.40% compared to 9.22% at December 31, 2011. Our Tier 1 capital and total capital ratios were 10.15% and 12.84%, respectively, compared to 10.90% and 13.67%, respectively, at December 31, 2011. The change in Tier 1 and total capital ratios from year end is primarily due to the redemption of trust preferred securities in June and exclusion, according to regulatory guidelines, of the securities announced for redemption in July. The impact to our Tier 1 and total capital ratios as a result of exclusion of the trust preferred securities was approximately 90 basis points. Overall, our capital remains strong and well above the requirements to be considered “well capitalized” according to current and proposed regulatory standards. See additional discussion of our capital and liquidity position in the “Capital Resources” and “Liquidity Risk” sections of this MD&A.

Financial performance

Our core performance continued to steadily improve during the first half of 2012 and marked a continuation of the improved momentum we built during 2011. Improved revenue, as well as continued favorable trends in loans, deposits, and credit quality provided the catalyst for improved results in the three and six months ended June 30, 2012. During the first half of 2012, EPS increased, net interest income and noninterest income grew, credit quality continued to improve, low-cost deposits increased and remained at record highs, capital ratios remained strong, and, as discussed below, we made progress on our goal of eliminating $300 million in annual expenses by the end of 2013.

Net income available to common shareholders during the three and six months ended June 30, 2012 was $270 million and $515 million, or $0.50 and $0.96 per average common diluted share, respectively. Comparatively, net income available to common shareholders during the three and six months ended June 30, 2011 was $174 million and $212 million, or $0.33 and $0.41 per average common diluted share, respectively. Results in 2012 compared to 2011 were driven by lower provision for credit losses, higher revenue, and the absence of preferred dividends paid to the U.S. Treasury since the first quarter of 2011, and a non-cash charge related to the accelerated accretion associated with repayment of the U.S. government's TARP investment in March 2011. These results were partially offset by higher noninterest expense. During the three and six months ended June 30, 2012, improved credit quality resulted in a decrease of 23% and 26%, respectively, in our provision for credit losses compared to the three and six months ended

June 30, 2011, which was a significant driver of the increase in our net income available to common shareholders. However, as credit quality continues to improve, the impact to net income available to common shareholders due to lower provisions for credit losses is expected to be less substantial in future periods.

Our PPG expense initiative made significant progress in the first half of 2012, increasing to $250 million of annualized savings realized at June 30, 2012 compared to $75 million of annualized savings realized at December 31, 2011. The three main components of the PPG expense program: strategic supply management, consumer bank efficiencies, and operations staff and support, all contributed to the progress during the quarter. Our Strategic Supply Management initiatives have lowered costs

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with our suppliers, as well as reduced our own demand for such services. In addition to contract renegotiations, savings are being realized on items we consider discretionary such as travel, usage of temporary labor, courier, and print and wireless services. Consumer bank savings have been realized in branch staffing and location efficiencies due to technological advancements and investment in lower-cost channels, with a high rate of adoption of the new technology by our clients. Additionally, savings have come from renegotiating the rate we pay for rewards related to our rewards check card program and restructuring the rewards earnings rate. Additionally, we have changed our incentive compensation structure for certain teammates which is already yielding savings. In operations staff and support, savings have been driven by lean process design efforts and streamlining key business processes. Additionally, we have expanded our use of digital technology by reducing paper statements significantly. Given the progress to date, we believe that we are still well positioned to achieve the stated goal of $300 million in annual expense savings by December 2013. The achievement of the PPG program goal is just the beginning in establishing an efficiency minded culture that will benefit the Company and our shareholders. However, the more important aspect of the PPG program extends beyond the stated plans of the PPG program and is our transformation into a more efficient organization with a long-term efficiency ratio target of below 60%. We are acutely focused on this transformation and will be driven by a high intensity around revenue and expense initiatives that will help us to achieve it.

Our asset quality metrics continued to improve in 2012, with improvements in net charge-offs, NPLs, nonperforming assets, and early stage delinquencies. The improvement in credit quality drove a 24% and 27% decrease in the provision for loan losses for the three and six months ended June 30, 2012 compared to the same periods in 2011. Net charge-offs declined 31% and 28% during the three and six months ended June 30, 2012 compared to the same periods in 2011, with improvements in each portfolio. At June 30, 2012, the ALLL ratio remains elevated by historical standards at 1.85% of total loans, but declined 16 basis points compared to December 31, 2011, due to decreases in the ALLL coupled with an increase in loans. We currently expect net charge-offs to be relatively stable during the third quarter of 2012. Total NPLs continued the downward trend that began in 2010, with a decline of 15% from December 31, 2011 as a result of reduced inflows into nonaccrual combined with our problem loan resolution efforts. Declines in NPLs were experienced in all categories, with the largest declines coming from the residential and commercial portfolios. We expect a continuation of the declining trend in NPLs in the third quarter of 2012. OREO declined 31% compared to the prior year end and was the result of continued disposition of properties once we had clear title coupled with a moderation of inflows. Our restructured loan portfolio declined 6% compared to December 31, 2011, with decreases in both the nonaccruing and accruing loan populations. Further, the accruing restructured portfolio continued to exhibit strong payment performance with 94% current on principal and interest payments at June 30, 2012. Early stage delinquencies, a leading indicator of asset quality, particularly for consumer loans, declined during the first half of 2012, both in total and when excluding government-guaranteed loan delinquencies. This decline was a result of our ongoing efforts to reduce risk in the portfolio as evidenced by declines in higher-risk loans. See additional discussion of credit and asset quality in the “Loans,” “Allowance for Credit Losses,” “Nonperforming Assets,” and “Restructured Loans,” sections of this MD&A.

Average loans increased 7% during both the three and six months ended June 30, 2012 compared to the same periods in 2011. The increase in both periods was led by increases in commercial & industrial loans, guaranteed mortgage and student loans, and consumer indirect loans, being partially offset by decreases in commercial real estate and home equity loans. Our risk profile remains noticeably improved as declines in certain higher-risk loan portfolios have been offset by targeted growth in certain lower-risk portfolios, such as government-guaranteed loans. As a result, our guaranteed loans represent 10% of the portfolio at June 30, 2012 and 11% at December 31, 2011 compared to 8% at June 30, 2011. Our decision to grow government guaranteed loans over the past several years served as a transition to a time of organic loan growth, as well as helped to reduce the risk in the balance sheet in conjunction with the decline in high-risk loans. As recent quarters have yielded organic growth and the higher-risk loan balances have declined, and as part of our continued active management of the balance sheet, we elected to sell approximately $500 million of government guaranteed mortgages in the second quarter of 2012, resulting in an $18 million gain.

We remain committed to providing home financing in the communities we serve and are focused on extending credit to qualified borrowers during this uncertain economic landscape. To that end, during the six months ended June 30, 2012, we extended approximately $44 billion in new loan originations, commitments, and renewals of commercial, residential, and consumer loans to our clients.

Deposits remained at record highs during 2012 and the shift in deposit mix seen during 2011 to lower-cost deposits continued. Average consumer and commercial deposits increased 3% and 4% during three and six months ended June 30, 2012 compared to the same periods in 2011, respectively. The driver of the increase for both periods was average balance increases of 23% and 24%, respectively, in noninterest-bearing DDAs, partially offset by declines in higher cost time deposits of 14% and 13%, respectively. Due to the growth seen in core deposits, our liquidity has been enhanced, enabling us to reduce our higher-cost wholesale funding sources. Our primary higher-cost funding source is long-term debt, which we reduced, on average, by 1% and 9% compared to the three and six months ended June 30, 2011, respectively. While we continue to believe that a portion of the low-cost deposit growth is attributable to clients' desires for having increased liquidity, we believe that we have also

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proactively generated this growth in both our Consumer and Wholesale businesses as we have expanded our number of primary client relationships.

Total revenue, on an FTE basis, increased 2% compared to both the three and six months ended June 30, 2011, driven by an increase in both net interest income and noninterest income. Net interest income, on an FTE basis, increased 2% and 3% compared to the three and six months ended June 30, 2011, respectively, primarily as a result of higher loan balances, lower funding costs, and an improved funding mix. Our net interest margin was 3.39% and 3.44% for the three and six months ended June 30, 2012, compared to 3.53% during both the three and six months ended June 30, 2011. The declines in margin were a result of a decline in our swap-related income related to maturing commercial loan swaps and accounted for a majority of the decline in the margin. Noninterest income increased 3% and 1% compared to the three and six months ended June 30, 2011, respectively, most notably due to increases in mortgage-related income that was driven by the low interest rate environment and expanded refinancing programs announced by the U.S. government, which resulted in increased production volume. The increases in mortgage-related income were partially offset by declines in investment banking income, card fees, and lower securities gains. Card fees were the largest driver of the decline and were lower in 2012 compared to the same periods in 2011 due to the new regulations on debit card interchange fees that became effective at the beginning of the fourth quarter of 2011.

Noninterest expense was flat compared to the three months ended June 30, 2011, primarily as a result of higher personnel costs, increased outside processing and software expenses, and losses on extinguishment of debt, being offset by lower FDIC premiums and regulatory assessments and lower advertising spending. Noninterest expense increased 3% compared to the six months ended June 30, 2011, primarily driven by higher operating losses, increased outside processing and software expenses, and losses on extinguishment of debt, partially offset by lower FDIC premiums and regulatory assessments and lower advertising spending. The increase in the operating losses during the six months ended June 30, 2012 compared to the same period in 2011 was driven by litigation-related expenses, which tend to fluctuate based on specific legal matters, as well as operating losses associated with mortgage servicing. The losses related to debt extinguishment during 2012 are a result of non-cash charges related to the redemption of higher cost trust preferred securities during June and July. See additional discussion of our financial performance in the "Consolidated Financial Results" section of this MD&A.

Line of Business Highlights

During 2012, we changed our reporting segments and now measure business activities based on three segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking, with the remainder in Corporate Other.

During the first half of 2012, our core performance improved in each line of business, with higher net interest income and net income in each segment compared to the three and six months ended June 30, 2011.

Consumer Banking and Private Wealth Management

- The Consumer Banking and Private Wealth Management segment had higher net income, driven by increased net interest income, lower credit losses, and lower noninterest expenses during the three and six months ended June 30, 2012 compared to the same periods in 2011. Net income was 110% and 70% higher as net interest income grew and the provision for credit losses declined 33% and 28% during the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011.
- PPG positively impacted the segment as noninterest expense declined 7% and 3% during the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011. This led to a 319 basis point and 72 basis point improvement in the efficiency ratio compared to the three and six months ended June 30, 2011, respectively.
- Average loans and consumer and commercial deposits increased 7% and 1%, respectively, during both the three and six months ended June 30, 2012 compared to the same periods in 2011. Additionally, favorable trends continued toward lower-cost deposit products.

Wholesale Banking

- The Wholesale Banking segment also had higher net income, driven by increased net interest income, lower credit losses, and lower noninterest expenses when compared to the three and six months ended June 30, 2011. Net income was 119% and 89% higher as net interest income grew 9% and 10%, and the provision for credit losses declined 62% and 48% during the three and six months ended June 30, 2012, respectively. The CIB line of business achieved its highest quarterly profit in its history during the second quarter of 2012.
- PPG positively impacted the segment, as noninterest expense declined 6% and 5% during the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011. This led to a 570 basis point and 540 basis point, improvement in the efficiency ratio compared to the three and six months ended June 30, 2011, respectively. The efficiency ratio was approximately 61% during the three and six months ended June 30, 2012.

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- Average loans and consumer and commercial deposits increased during each of the three and six months ended June 30, 2012 periods compared to comparable periods in 2011.

Mortgage Banking

- The Mortgage Banking segment had an improvement in net loss of 18% and 19% during the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011. The results were driven by a 17% and 11% increase in net interest income and a 139% and 115% increase in noninterest income during the three and six months ended June 30, 2012, respectively, compared to 2011. Partially offsetting the increases in revenue were increases in noninterest expenses of 27% and 30% during the three and six months ended June 30, 2012, respectively, compared to 2011.
- While we continue to manage through the legacy mortgage issues, we experienced healthy mortgage production, increasing 76% and 52% compared to the three and six months ended June 30, 2011, respectively. Given the current rate environment and some overall improvements in the housing market, coupled with the HARP pipeline, we expect near-term mortgage revenue to remain strong.

Our Corporate Other segment remained virtually unchanged from prior periods and encompasses all remaining areas of the Company and remains key to our asset and liability performance. This segment continues to manage the balance sheet within the context of changing financial market conditions. While this segment's net income declined during the three and six months ended June 30, 2012 compared to the same periods in 2011, the drivers were a decrease in net interest income and less gains on sales of AFS.

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

SELECTED QUARTERLY FINANCIAL DATA Table 1

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions, except per share data)	2012	2011	2012	2011
Summary of Operations				
Interest income	$1,492	$1,546	$3,026	$3,100
Interest expense	218	287	441	592
Net interest income	1,274	1,259	2,585	2,508
Provision for credit losses	300	392	617	839
Net interest income after provision for credit losses	974	867	1,968	1,669
Noninterest income	940	912	1,816	1,795
Noninterest expense	1,546	1,542	3,087	3,007
Net income before provision for income taxes	368	237	697	457
Provision for income taxes	91	58	160	91
Net income attributable to noncontrolling interest	2	1	12	8
Net income	$275	$178	$525	$358
Net income available to common shareholders	$270	$174	$515	$212
Net interest income - FTE	$1,306	$1,286	$2,648	$2,563
Total revenue - FTE	2,246	2,198	4,464	4,358
Total revenue - FTE excluding securities gains, net [1]	2,232	2,166	4,432	4,262
Net income per average common share:				
Diluted	0.50	0.33	0.96	0.41
Diluted excluding effect of accelerated accretion associated with the repurchase of preferred stock issued to the U.S. Treasury	0.50	0.33	0.96	0.55
Basic	0.51	0.33	0.97	0.41
Dividends paid per average common share	0.05	0.01	0.10	0.02
Book value per common share	37.69	36.30		
Tangible book value per common share [2]	26.02	24.57		
Market price:				
High	24.83	30.13	24.93	33.14
Low	20.96	24.63	18.07	24.63
Close	24.23	25.80	24.23	25.80
Selected Average Balances				
Total assets	$177,915	$170,527	$177,385	$171,789
Earning assets	154,890	145,985	154,757	146,383
Loans	123,365	114,920	122,954	115,040
Consumer and commercial deposits	125,885	121,879	125,864	121,298
Brokered time and foreign deposits	2,243	2,340	2,258	2,472
Total shareholders’ equity	20,472	19,509	20,364	21,298
Average common shares - diluted (thousands)	537,495	535,416	536,951	519,548
Average common shares - basic (thousands)	533,964	531,792	533,532	515,819
Financial Ratios (Annualized)				
ROA	0.62 %	0.42 %	0.59 %	0.42 %
ROE	5.37	3.61	5.16	2.28
Net interest margin - FTE	3.39	3.53	3.44	3.53
Efficiency ratio [3]	68.83	70.17	69.17	69.01
Tangible efficiency ratio [4]	68.33	69.64	68.67	68.49
Total average shareholders’ equity to total average assets	11.51	11.44	11.48	12.40

Tangible equity to tangible assets [5]	8.31		8.07	
Capital Adequacy				
Tier 1 common equity	9.40	%	9.22	%
Tier 1 capital	10.15		11.11	
Total capital	12.84		14.01	
Tier 1 leverage	8.15		8.92	

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SELECTED QUARTERLY FINANCIAL DATA, continued

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Reconcilement of Non U.S. GAAP Financial Measures				
Net income available to common shareholders	$270	$174	$515	$212
Accelerated accretion for repurchase of preferred stock issued to U.S. Treasury	—	—	—	74
Net income available to common shareholders excluding accelerated accretion for repurchase of preferred stock issued to U.S. Treasury	$270	$174	$515	$286
Net income per average common share - diluted	$0.50	$0.33	$0.96	$0.41
Effect of accelerated accretion for repurchase of preferred stock issued to U.S. Treasury	—	—	—	0.14
Net income per average common share - diluted, excluding effect of accelerated accretion for repurchase of preferred stock issued to U.S. Treasury	$0.50	$0.33	$0.96	$0.55
Net income	$275	$178	$525	$358
Preferred dividends	(3)	(2)	(6)	(4)
U.S. Treasury preferred dividends and accretion of discount	—	—	—	(66)
Accelerated accretion for repurchase of preferred stock issued to U.S. Treasury	—	—	—	(74)
Dividends and undistributed earnings allocated to unvested shares	(2)	(2)	(4)	(2)
Net income available to common shareholders	$270	$174	$515	$212
Net interest income	$1,274	$1,259	$2,585	$2,508
FTE adjustment	32	27	63	55
Net interest income - FTE	1,306	1,286	2,648	2,563
Noninterest income	940	912	1,816	1,795
Total revenue - FTE	2,246	2,198	4,464	4,358
Net securities gains	(14)	(32)	(32)	(96)
Total revenue - FTE excluding net securities gains	$2,232	$2,166	$4,432	$4,262
Efficiency ratio [3]	68.83 %	70.17 %	69.17 %	69.01 %
Impact of excluding amortization of intangible assets other than MSRs	(0.50)	(0.53)	(0.50)	(0.52)
Tangible efficiency ratio [4]	68.33 %	69.64 %	68.67 %	68.49 %
Total shareholders' equity	$20,568	$19,660		
Goodwill, net of deferred taxes of $156 and $144, respectively	(6,220)	(6,199)		
Other intangible assets, net of deferred taxes of $10 and $21, respectively, and MSRs	(929)	(1,518)		
MSRs	865	1,423		
Tangible equity	14,284	13,366		
Preferred stock	(275)	(172)		
Tangible common equity	$14,009	$13,194		
Total assets	$178,257	$172,173		
Goodwill	(6,376)	(6,343)		

Other intangible assets including MSRs	(939)	(1,539)
MSRs	865	1,423
Tangible assets	$171,807	$165,714
Tangible equity to tangible assets [5]	8.31%	8.07%
Tangible book value per common share [2]	$26.02	$24.57
Total loans	$124,560	$114,913
Government guaranteed loans	(12,911)	(9,133)
Loans held at fair value	(406)	(449)
Total loans, excluding government guaranteed and fair value loans	$111,243	$105,331
Allowance to total loans, excluding government guaranteed and fair value loans [6]	2.07%	2.61%

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

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

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

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

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

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

Consolidated Daily Average Balances, Income/Expense and Average Yields Earned and Rates Paid Table 2

	Three Months Ended						Increase/(Decrease) From	
	June 30, 2012			June 30, 2011			Prior Year Quarter	
(Dollars in millions; yields on taxable-equivalent basis)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Loans:[1]								
Commercial and industrial - FTE [2]	$50,798	$578	4.58 %	$45,158	$583	5.17 %	$5,640	(0.59)%
Commercial real estate	4,582	42	3.65	5,479	50	3.66	(897)	(0.01)
Commercial construction	862	8	3.85	1,204	11	3.83	(342)	0.02
Residential mortgages - guaranteed	5,853	47	3.19	4,387	39	3.57	1,466	(0.38)
Residential mortgages - nonguaranteed	22,707	260	4.59	21,794	273	5.01	913	(0.42)
Home equity products	15,066	138	3.69	15,924	150	3.77	(858)	(0.08)
Residential construction	707	9	5.11	885	12	5.24	(178)	(0.13)
Guaranteed student loans	7,195	69	3.84	4,552	49	4.37	2,643	(0.53)
Other direct	2,186	24	4.37	1,823	22	4.79	363	(0.42)
Indirect	10,288	99	3.88	9,459	111	4.70	829	(0.82)
Credit cards	537	14	10.35	457	15	12.98	80	(2.63)
Nonaccrual[3]	2,584	6	1.00	3,798	10	1.08	(1,214)	(0.08)
Total loans	123,365	1,294	4.22	114,920	1,325	4.62	8,445	(0.40)
Securities available for sale:								
Taxable	22,569	176	3.13	23,711	199	3.35	(1,142)	(0.22)
Tax-exempt - FTE[2]	375	5	5.32	517	7	5.47	(142)	(0.15)
Total securities available for sale - FTE	22,944	181	3.16	24,228	206	3.40	(1,284)	(0.24)
Securities purchased under agreements to resell	924	—	0.01	1,079	—	—	(155)	0.01
LHFS	3,352	31	3.65	2,104	22	4.17	1,248	(0.52)
Interest-bearing deposits	22	—	0.26	23	—	0.16	(1)	0.10
Interest earning trading assets	4,283	18	1.67	3,631	20	2.30	652	(0.63)
Total earning assets	154,890	1,524	3.96	145,985	1,573	4.32	8,905	(0.36)
ALLL	(2,323)			(2,740)			417	
Cash and due from banks	4,721			4,452			269	
Other assets	15,260			17,348			(2,088)	
Noninterest earning trading assets	2,230			2,999			(769)	
Unrealized gains on securities available for sale	3,137			2,483			654	
Total assets	$177,915			$170,527			$7,388	
Liabilities and Shareholders' Equity								
Interest-bearing deposits:								
NOW accounts	$24,957	$6	0.10 %	$24,672	$10	0.16 %	$285	(0.06)%
Money market accounts	41,950	24	0.23	42,865	43	0.40	(915)	(0.17)
Savings	5,169	1	0.11	4,587	2	0.18	582	(0.07)

Consumer time	10,997	40	1.47	12,712	51	1.60	(1,715)	(0.13)
Other time	6,193	25	1.63	7,203	31	1.74	(1,010)	(0.11)
Total interest-bearing consumer and commercial deposits	89,266	96	0.43	92,039	137	0.60	(2,773)	(0.17)
Brokered time deposits	2,211	22	3.88	2,317	25	4.38	(106)	(0.50)
Foreign deposits	32	—	0.18	23	—	0.05	9	0.13
Total interest-bearing deposits	91,509	118	0.52	94,379	162	0.69	(2,870)	(0.17)
Funds purchased	810	—	0.11	1,001	—	0.12	(191)	(0.01)
Securities sold under agreements to repurchase	1,646	1	0.18	2,264	1	0.14	(618)	0.04
Interest-bearing trading liabilities	751	4	2.36	922	8	3.39	(171)	(1.03)
Other short-term borrowings	6,942	5	0.27	2,934	3	0.38	4,008	(0.11)
Long-term debt	13,657	90	2.65	13,765	113	3.30	(108)	(0.65)
Total interest-bearing liabilities	115,315	218	0.76	115,265	287	1.00	50	(0.24)
Noninterest-bearing deposits	36,619			29,840			6,779	
Other liabilities	4,337			3,823			514	
Noninterest-bearing trading liabilities	1,172			2,090			(918)	
Shareholders’ equity	20,472			19,509			963	
Total liabilities and shareholders’ equity	$177,915			$170,527			$7,388	
Interest Rate Spread			3.20 %			3.32 %		(0.12)%
Net Interest Income - FTE[4]		$1,306			$1,286			
Net Interest Margin[5]			3.39 %			3.53 %		(0.14)%

[1]Interest income includes loan fees of $31 million and $37 million for the three month periods ended June 30, 2012 and 2011, respectively.
[2]Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-
equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated $32 million and $27 million for the three month periods ended June 30, 2012 and 2011, respectively.
[3]Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.
[4]Derivative instruments that manage our interest-sensitivity position increased net interest income $125 million and $157 million for the three month periods ended June 30, 2012 and 2011, respectively.
[5]The net interest margin is calculated by dividing annualized net interest income – FTE by average total earning assets.

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

	Six Months Ended						Increase/(Decrease) From	
	June 30, 2012			June 30, 2011			Prior Year Quarter	
(Dollars in millions; yields on taxable-equivalent basis)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Yields/ Rates
Assets								
Loans:[1]								
Commercial and industrial - FTE [2]	$50,170	$1,176	4.72%	$44,673	$1,165	5.26%	$5,497	(0.54%)
Commercial real estate	4,660	86	3.69	5,599	103	3.71	(939)	(0.02)
Commercial construction	891	17	3.87	1,334	25	3.81	(443)	0.06
Residential mortgages - guaranteed	6,166	99	3.22	4,346	74	3.42	1,820	(0.20)
Residential mortgages - nonguaranteed	22,327	519	4.65	21,982	560	5.10	345	(0.45)
Home equity products	15,174	279	3.70	16,068	301	3.77	(894)	(0.07)
Residential construction	722	18	5.12	924	24	5.22	(202)	(0.10)
Guaranteed student loans	7,252	140	3.88	4,464	96	4.34	2,788	(0.46)
Other direct	2,143	47	4.41	1,782	43	4.89	361	(0.48)
Indirect	10,200	200	3.94	9,466	225	4.79	734	(0.85)
Credit cards	541	29	10.47	489	30	12.21	52	(1.74)
Nonaccrual[3]	2,708	14	1.03	3,913	18	0.92	(1,205)	0.11
Total loans	122,954	2,624	4.29	115,040	2,664	4.67	7,914	(0.38)
Securities available for sale:								
Taxable	23,409	366	3.13	23,708	383	3.24	(299)	(0.11)
Tax-exempt - FTE[2]	398	11	5.37	533	15	5.51	(135)	(0.14)
Total securities available for sale - FTE	23,807	377	3.17	24,241	398	3.29	(434)	(0.12)
Securities purchased under agreements to resell	827	—	0.02	1,071	—	—	(244)	0.02
LHFS	3,001	55	3.67	2,413	50	4.15	588	(0.48)
Interest-bearing deposits	21	—	0.24	23	—	0.14	(2)	0.10
Interest earning trading assets	4,147	33	1.58	3,595	43	2.39	552	(0.81)
Total earning assets	154,757	3,089	4.01	146,383	3,155	4.35	8,374	(0.34)
ALLL	(2,375)			(2,796)			421	
Cash and due from banks	4,642			5,463			(821)	
Other assets	15,076			17,523			(2,447)	
Noninterest earning trading assets	2,245			2,827			(582)	
Unrealized gains on securities available for sale	3,040			2,389			651	
Total assets	$177,385			$171,789			$5,596	
Liabilities and Shareholders' Equity								
Interest-bearing deposits:								
NOW accounts	$25,110	$12	0.10%	$25,019	$21	0.17%	$91	(0.07%)
Money market accounts	42,219	49	0.23	42,735	91	0.43	(516)	(0.20)
Savings	5,015	3	0.11	4,428	3	0.16	587	(0.05)

Consumer time	11,234	84	1.50	12,743	101	1.60	(1,509)	(0.10)
Other time	6,281	52	1.66	7,309	64	1.76	(1,028)	(0.10)
Total interest-bearing consumer and commercial deposits	89,859	200	0.45	92,234	280	0.61	(2,375)	(0.16)
Brokered time deposits	2,238	45	3.96	2,332	51	4.37	(94)	(0.41)
Foreign deposits	20	—	0.17	140	1	0.14	(120)	0.03
Total interest-bearing deposits	92,117	245	0.53	94,706	332	0.71	(2,589)	(0.18)
Funds purchased	840	1	0.11	1,057	—	0.15	(217)	(0.04)
Securities sold under agreements to repurchase	1,640	1	0.16	2,283	2	0.15	(643)	0.01
Interest-bearing trading liabilities	641	7	2.10	926	15	3.37	(285)	(1.27)
Other short-term borrowings	8,056	9	0.23	2,847	6	0.40	5,209	(0.17)
Long-term debt	12,507	178	2.87	13,785	237	3.47	(1,278)	(0.60)
Total interest-bearing liabilities	115,801	441	0.77	115,604	592	1.03	197	(0.26)
Noninterest-bearing deposits	36,005			29,064			6,941	
Other liabilities	4,116			3,889			227	
Noninterest-bearing trading liabilities	1,099			1,934			(835)	
Shareholders' equity	20,364			21,298			(934)	
Total liabilities and shareholders' equity	$177,385			$171,789			$5,596	
Interest Rate Spread			3.24 %			3.32 %		(0.08 %)
Net Interest Income - FTE[4]		$2,648			$2,563			
Net Interest Margin[5]			3.44 %			3.53 %		(0.09 %)

[1]Interest income includes loan fees of $55 million and $76 million for the six month periods ended June 30, 2012 and 2011, respectively.
[2]Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated $63 million and $55 million for the six month periods ended June 30, 2012 and 2011, respectively.
[3]Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.
[4]Derivative instruments that manage our interest-sensitivity position increased net interest income $281 million and $312 million for the six month periods ended June 30, 2012 and 2011, respectively.
[5]The net interest margin is calculated by dividing annualized net interest income – FTE by average total earning assets.

Net Interest Income/Margin
Second Quarter of 2012
Net interest income, on an FTE basis, was $1.3 billion during the second quarter of 2012, an increase of $20 million, or 2%, from the second quarter of 2011. The increase was predominantly driven by higher loan balances and lower interest expense, the latter of which was a result of the continued favorable trends in the deposit mix and lower borrowing costs. Net interest margin decreased by 14 basis points to 3.39% in the second quarter of 2012, from 3.53% in the second quarter of 2011. The decrease was primarily a result of an increase in average earning assets at marginally lower yields, partially offset by an improved funding mix, characterized by increased demand deposits and lower rates paid on interest-bearing liabilities. Yields on earning assets declined by 36 basis points to 3.96% during the second quarter of 2012 compared to 4.32% during the same period of 2011, as loans added during the period yielded less than maturing loans, reflecting the current low interest rate environment. Additionally, loan yields in the second quarter of 2012 were impacted by a decline in income derived from interest rate swaps utilized to manage interest rate risk. Rates paid on interest-bearing liabilities decreased by 24 basis points over the same period, predominantly due to improved funding mix, as growth in lower-cost deposits and wholesale funding replaced higher-cost time deposits and long-term debt that matured or was called during the period. With a slightly improving economy, we expect to see continued loan growth that will add to net interest income, although most new loan rates will be lower than rates in our existing portfolio. Additionally, starting in the third quarter we will begin to benefit from the redemptions in June and July of the higher cost trust preferred securities that had a weighted average rate of approximately 7%. We expect to also benefit from higher cost CDs continuing to mature and rolling into lower cost deposit products. However, deposit pricing opportunities are becoming limited given their current low absolute rates, but we will continue to evaluate and manage changes in these rates. Overall, we currently expect the benefits and challenges in net interest income to largely offset such that net interest margin will be relatively stable in the third quarter.
Average earning assets increased by $8.9 billion, or 6%, compared to the second quarter of 2011, predominantly due to the growth in average loans, which increased by $8.4 billion, or 7%. The increase in loans was attributable to increases in commercial and industrial loans, primarily driven by our large corporate and middle market borrowers, government-guaranteed student loans, which increased primarily as a result of portfolio acquisitions in the fourth quarter of 2011, guaranteed residential mortgages, high credit quality nonguaranteed residential mortgages, and consumer-indirect loans, driven in part by purchases of high quality auto loan portfolios during 2011. These increases were partially offset by declines in nonaccrual loans, commercial real estate loans, home equity products, and commercial construction loans. The declines in commercial real estate loans and commercial construction loans both predominantly resulted from our targeted efforts to reduce exposure to these higher-risk loans. Our loan portfolio yielded 4.22% for the quarter, down 40 basis points from the second quarter of 2011. The yield decline related to the increase in both lower risk guaranteed student and residential mortgage loans at yields that were commensurate with the government guarantee credit enhancement. Additionally, the aforementioned lower swap-related income impacting commercial loan yields along with lower yielding portfolio additions were drivers of the decline.
We utilize interest rate swaps to manage interest rate risk. The largest notional position of these swaps are receive fixed/pay floating interest rate swaps that convert a portion of our commercial loan portfolio from floating rates, based on LIBOR, to fixed rates. As of June 30, 2012, the outstanding notional balance of active swaps was $13.4 billion, which qualified as cash flow hedges on variable rate commercial loans, compared with $15.9 billion as of June 30, 2011. In addition to the income recognized from currently outstanding swaps, we also continue to recognize interest income over the original hedge period resulting from terminated or de-designated swaps in a gain position that were previously designated as cash flow hedges on variable rate commercial loans. Swap income declined to $120 million during the second quarter of 2012 from $154 million during the second quarter of 2011. The $34 million decline was due to a decline in the income from $3.5 billion of previously terminated swaps that reached their original maturity date in April of 2012. Assuming no significant changes to LIBOR, we expect commercial loan swap income to remain relatively stable at the current quarter level of approximately $120 million for the remainder of the year. Our interest rate risk management practices may cause us from time to time to purchase and/or terminate additional interest rate swaps. In the absence of additions or terminations, our notional balance of active swaps will begin to mature in the second quarter of 2013 with remaining maturities through early 2017. The average maturity of our active

swap notional balances at June 30, 2012 was 2.9 years.
Average interest-bearing liabilities increased $50 million, or less than 1%, compared to the second quarter of 2011. Increases in lower-cost client deposits and other short-term borrowings were predominantly offset by a $2.7 billion, or 14%, decline in higher-cost time deposits, and a $0.9 billion, or 2% decline in money market accounts compared to the second quarter of 2011. Total average consumer and commercial deposits increased by $4.0 billion, or 3%, compared with the same period during 2011. This increase was predominantly driven by a $6.8 billion, or 23%, increase in demand deposits, partially offset by the aforementioned decline in higher-cost time deposits. The growth in lower-cost deposits, the decline in higher-cost time deposits, and lower rates on new borrowings that replaced maturing, higher yielding borrowings, resulted in a 24 basis point decline in rates paid on interest-bearing liabilities compared to the same period during 2011. The growth in lower-cost deposits was the result of successful sales efforts and clients' increased preference for more liquid products. The increase in other

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short-term borrowings is a result of new FHLB borrowings during the period, which reflects a continuation of the recent trend toward a more normalized funding distribution. Beginning in the third quarter, we expect to benefit from the redemption of $1.2 billion of higher-cost trust preferred securities.

During the second quarter of 2012, the interest rate environment was characterized by a flatter yield curve versus the same period during 2011, as three-month LIBOR increased and rates at the long end of the curve declined. More specifically, the Fed funds target rate averaged 0.25% and the Prime rate averaged 3.25%, both unchanged from the second quarter of 2011. During the second quarter of 2012, benchmark rates were as follows compared to the second quarter of 2011; one-month LIBOR averaged 0.24%, an increase of 4 basis points, three-month LIBOR averaged 0.47%, an increase of 20 basis points, five-year swaps averaged 1.08%, a decrease of 99 basis points, and ten-year swaps averaged 1.95%, a decrease of 134 basis points.

First Half of 2012

For the first six months of 2012, net interest income was $2.6 billion, an increase of $85 million, or 3%, from the first six months of 2011. The increase was predominantly driven by the same factors as discussed above for the second quarter related to higher loan balances and lower interest expense as a result of favorable deposit mix and lower borrowing costs.

Average earning assets increased by $8.4 billion, or 6%. The increase in earning assets was predominantly attributable to increases of $7.9 billion, or 7%, in average loans, and $0.6 billion, or 24%, in LHFS, partially offset by a decrease of $0.4 billion, or 2%, in average securities AFS. The increase in average loans was predominantly a result of growth in commercial and industrial loans, government-guaranteed student loans, and guaranteed residential mortgages, partially offset by declines in nonaccrual loans, commercial real estate loans, and home equity products. The factors for the year-over-year changes were the same as those discussed related to the second quarter of 2012 compared to the second quarter of 2011.

Interest-bearing liabilities increased by $0.2 billion, or less than 1%, compared to the six months ended June 30, 2011, primarily driven by the increase in other short-term borrowings. This increase during the six months ended June 30, 2012 compared to 2011 was predominantly offset by a $2.5 billion, or 13%, decrease in higher-cost time deposits, and a reduction in all other borrowings, including a $1.3 billion, or 9%, reduction in long-term debt. Average consumer and commercial deposits increased by $4.6 billion, or, 4%, during the six months ended June 30, 2012 compared with the six months ended June 30, 2011. The increase was driven by a $6.9 billion, or 24%, increase in demand deposits, partially offset by the aforementioned decline in higher-cost time deposits. The net interest margin was 3.44%, a decline of 9 basis points compared to the six months ended June 30, 2011. Yields on average earning assets declined by 34 basis points to 4.01% for the six months ended June 30, 2012 from 4.35% for the same period in 2011. The average yield on loans for the six months ended June 30, 2012 was 4.29%, down 38 basis points from the same period in 2011. The factors in the year-over-year decrease in the loans yield were the same as those discussed above related to the second quarter of 2012. Also contributing to the decline in the yields on average earning assets during the six months ended June 30, 2012 was the decline in yield on LHFS of 48 basis points, primarily due to the low interest rate environment during the current six month period compared to the prior year six month period. The interest rate environment has also allowed active management of interest-bearing liabilities over the same period. The result of this active management was a decrease of 26 basis points in interest-bearing liabilities, due primarily to a 60 basis point decline in long-term debt, as well as a 16 basis point decline in consumer and commercial deposits.

Foregone Interest

Foregone interest income from NPLs reduced net interest margin by 9 basis points during the second quarter of 2012 and 10 basis points during the first six months of 2012, compared with a reduction of 16 basis points and 17 basis points during the three and six months ended June 30, 2011, as average nonaccrual loans decreased by $1.2 billion during both the three and six month periods ended June 30, 2012 compared to the same periods in 2011. See additional discussion of our expectations for future levels of credit quality in the “Allowance for Credit Losses” and “Nonperforming Assets” sections of this MD&A. Table 2 contains more detailed information concerning average balances, yields earned, and rates paid.

NONINTEREST INCOME

Table 3

	Three Months Ended June 30		%	Six Months Ended June 30		%
(Dollars in millions)	2012	2011	Change[1]	2012	2011	Change[1]
Service charges on deposit accounts	$167	$170	(2 %)	$332	$333	— %
Trust and investment management income	130	135	(4)	260	270	(4)
Other charges and fees	130	130	—	245	256	(4)
Mortgage production related income	103	4	NM	166	3	NM
Mortgage servicing related income	70	72	(3)	151	144	5
Investment banking income	75	95	(21)	147	162	(9)
Trading income	70	53	32	127	105	21
Card fees	66	105	(37)	127	205	(38)
Retail investment services	62	59	5	120	117	3
Net securities gains	14	32	(56)	32	96	(67)
Other noninterest income	53	57	(7)	109	104	5
Total noninterest income	$940	$912	3 %	$1,816	$1,795	1 %

[1]NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest income increased by $28 million, or 3%, compared to the three months ended June 30, 2011, due primarily to higher mortgage-related income and trading income, largely offset by lower investment banking income, a decline in card fees, and lower net securities gains. For the six months ended June 30, 2012, noninterest income increased by $21 million, or 1%, as a result of an increase in mortgage-related income and trading income, mostly offset by declines in card fees, investment banking income, and net securities gains.

Mortgage production related income improved by $99 million compared to the three months ended June 30, 2011, and by $163 million compared to the six months ended June 30, 2011. The increase was primarily due to higher loan production and increased gain on sale margins, partially offset by an increase in the mortgage repurchase provision. For the three and six months ended June 30, 2012, mortgage loan production increased 76% and 52% compared to the same periods in 2011, respectively, as refinancing activity increased due to the HARP 2.0 program and the continued low interest rate environment. Additionally, an $18 million gain on the sale of approximately $500 million of government guaranteed residential mortgages contributed to the increase in the 2012 period compared to 2011. The mortgage repurchase provision for the three and six months ended June 30, 2012 was $155 million and $330 million compared to $90 million and $170 million for the three and six months ended June 30, 2011, respectively. The reserve for mortgage repurchases was $434 million at June 30, 2012, an increase of $114 million from December 31, 2011. While repurchase demands during 2012 have been well below the elevated levels seen in the fourth quarter of 2011 as a result of lower demand volume from GSEs, the repurchase reserve was increased during the six months ended June 30, 2012 in light of our expectation that demand levels may remain elevated and the increase in the pending demand population.

Mortgage repurchase requests continue to vary significantly from period to period based on the timing of requests from the GSEs. However, the majority of our demands continue to be from loans in the 2006-2008 vintages and that have been 120 days past due at some point in their life cycle. Additionally, the majority of the demands that we have received have been from loans that were delinquent within the first 36 months after origination. If this pattern continues and investor selection criteria does not change, it suggests that the pool of delinquent loans from which we will receive demands could be stabilizing, given that any performing loans from the 2006-2008 vintages have now been outstanding beyond 36 months. We continue to believe that if this pattern continues, we will experience a reduced income statement impact toward the end of 2012. However, we believe demands will remain high in the coming quarters, and the variability in the volume could persist. As a result of the continued uncertainty and our expectation of continued elevated demands in the near term, our mortgage repurchase provision and reserve may remain at historically high levels. For additional information on the mortgage repurchase reserve, see Note 11, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in this Form 10-Q and the

"Critical Accounting Policies" section of our Annual Report on Form 10-K for the year ended December 31, 2011.
Investment banking income decreased by $20 million, or 21%, compared to the three months ended June 30, 2011, and by $15 million, or 9%, compared to the six months ended June 30, 2011. The decreases were primarily the result of lower syndicated finance volume, partially offset by higher bond origination fees.
Trading income increased by $17 million, or 32%, compared to the three months ended June 30, 2011, and by $22 million, or 21%, compared to the six months ended June 30, 2011. The increase was primarily due to higher core trading income driven

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by improved market conditions. Additionally, for the three and six months ended June 30, 2012, mark-to-market valuation losses on our fair value debt, net of hedges, and index-linked CDs increased compared to the same periods in 2011, partially offsetting the growth in core trading income.

Card fees decreased by $39 million, or 37%, compared to the three months ended June 30, 2011, and by $78 million, or 38%, compared to the six months ended June 30, 2011. The decline was a result of regulations on debit card interchange fee income that became effective at the beginning of fourth quarter 2011. When comparing the second quarter of 2012 interchange revenue to the second quarter of 2011, we experienced a decline of $45 million. For the six months ended June 30, 2012 the decrease in interchange revenue was $86 million, or approximately $43 million per quarter, compared to the same period in 2011. The estimated impact is consistent with our initial and future expectations, prior to any mitigating actions. As a means to mitigate some of this lost revenue, we have introduced new checking account products which are aligned with clients' needs and which we expect will provide additional sources of fee income. Additionally, we also expect continued benefit from the discontinuation of our debit card rewards programs, actions taken to reduce the costs related to our debit card operational support, and the introduction of other value-added deposit product features over the next two years, which we expect will produce additional deposit fee income. Collectively, and over time, we believe that the benefits from all of these changes will enable us to recapture 50% of the approximate $300 million of combined annual revenue loss attributable to both the interchange fee rules and Regulation E. Inherent in this expectation is client acceptance of certain deposit-related fees for value-added services we provide.

Net securities gains decreased by $18 million, or 56%, compared to the three months ended June 30, 2011, and by $64 million, or 67%, compared to the six months ended June 30, 2011. The higher gains on securities in 2011 were due to portfolio repositioning to maintain a high quality portfolio and manage our interest rate risk profile and included sales of $10.8 billion of securities compared to $2.2 billion during 2012. See "Securities Available for Sale" in this MD&A for further discussion regarding our investment portfolio activity.

NONINTEREST EXPENSE

Table 4

	Three Months Ended June 30		%	Six Months Ended June 30		%
(Dollars in millions)	2012	2011	Change[1]	2012	2011	Change[1]
Employee compensation	$654	$638	3 %	$1,306	$1,256	4 %
Employee benefits	108	110	(2)	254	246	3
Personnel expenses	762	748	2	1,560	1,502	4
Outside processing and software	180	162	11	356	320	11
Net occupancy expense	88	89	(1)	176	178	(1)
Operating losses	69	62	11	129	89	45
Credit and collection services	61	60	2	116	111	5
Regulatory assessments	60	81	(26)	111	152	(27)
Other real estate expense	52	64	(19)	103	133	(23)
Equipment expense	46	44	5	91	88	3
Consulting and legal	41	29	41	76	43	77
Marketing and customer development	32	46	(30)	59	84	(30)
Net loss/(gain) on debt extinguishment	13	(1)	NM	13	(2)	NM
Other staff expense	12	20	(40)	34	35	(3)
Amortization of intangible assets	11	12	(8)	22	23	(4)
Other expense	119	126	(6)	241	251	(4)
Total noninterest expense	$1,546	$1,542	—	$3,087	$3,007	3

[1]NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest expense increased by $4 million compared to the three months ended June 30, 2011, and by $80 million, or 3%, compared to the six months ended June 30, 2011. The increase in expense during both periods was driven

predominantly by higher compensation expense, outside processing and software expense, consulting and legal expense, and debt extinguishment. During the six months ended June 30, 2012, higher operating losses also contributed to the increase in noninterest expense from the same period in 2011. The increases were offset during both periods by a decline in regulatory assessments, other real estate expense, and marketing and customer development.

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Personnel expenses increased by $14 million, or 2%, compared to the three months ended June 30, 2011, and by $58 million, or 4%, compared to the six months ended June 30, 2011. Increases in both periods were driven by a $16 million and $50 million, or 3% and 4%, respectively, increase in employee compensation expense related to higher compensation from improved business performance and modest annual merit increases.
Outside processing and software expenses increased $18 million, or 11%, compared to the three months ended June 30, 2011, and $36 million, or 11%, compared to the six months ended June 30, 2011. The increase over the three and six months ended 2011 was largely due to increased outsourced services and application hosting costs, as well as higher software maintenance charges, in addition to the receipt of volume credits in the first quarter of 2011.
Operating losses increased $7 million, or 11%, compared to the three months ended June 30, 2011, and $40 million, or 45%, compared to the six months ended June 30, 2011. The increase in both periods was due to litigation-related expenses, which tend to fluctuate based on specific legal matters, as well as operating losses associated with mortgage-related activities.
Regulatory assessments expense declined $21 million, or 26%, compared to the three months ended June 30, 2011, and $41 million, or 27%, compared to the six months ended June 30, 2011. The decrease in both periods was due to a lower assessment rate, and for the six month period expense was impacted by a change in the assessment base. We believe regulatory expenses in near term quarters will be consistent with the expense level in the second quarter of 2012.
Other real estate expense decreased $12 million, or 19%, compared to the three months ended June 30, 2011, and $30 million, or 23%, compared to the six months ended June 30, 2011. The decrease was predominantly due to a decline in the OREO inventory resulting in lower loss provisioning, combined with a decrease in losses on sales of owned properties. Over time, as the economic environment improves, we expect that other real estate expense will continue to improve, but will likely remain elevated compared with the levels realized prior to the economic recession.
Consulting and legal expenses increased by $12 million, or 41%, compared to the three months ended June 30, 2011, and by $33 million, or 77%, compared to the six months ended June 30, 2011. The increase was attributable to consulting costs associated with specific business initiatives, as well as costs to address the mortgage servicing Consent Order. For additional information regarding the Consent Order, see Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q and the "Nonperforming Assets" section of this MD&A.
Marketing and customer development expense decreased $14 million, or 30%, compared to the three months ended June 30, 2011, and $25 million, or 30%, compared to the six months ended June 30, 2011. The decline was attributable to lower advertising spending which fluctuates based on the timing of advertising campaigns.
Net loss on debt extinguishment increased by $14 million compared to the three months ended June 30, 2011, and by $15 million compared to the six months ended June 30, 2011, due to the $13 million non-cash charges associated with the redemption of higher cost trust preferred securities which were completed in June and July 2012.

PROVISION FOR INCOME TAXES

For the three and six months ended June 30, 2012, the provision for income taxes was $91 million and $160 million, resulting in effective tax rates of 25% and 23%, respectively. For the three and six months ended June 30, 2011, we had a provision for income tax of $58 million and $91 million, resulting in an effective tax rate of 25% and 20%, respectively. The provision for income taxes differs from the provision using statutory rates primarily due to favorable permanent tax items such as income from lending to tax exempt entities and federal tax credits from community reinvestment activities. See additional discussion related to the provision for income taxes in Note 8, "Income Taxes," to the Consolidated Financial Statements in this Form 10-Q.

LOANS

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

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

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

Only a small percentage of home equity lines are scheduled to convert to amortizing during the remainder of 2012 and 2013, with 94% of home equity line balances scheduled to convert to amortization in 2014 or later, and over 50% in 2017 or later. It should be noted that a majority of accounts historically have not converted to amortizing. Based on historical trends, within 12 months of the end of their draw period, approximately 80% of accounts, and approximately 65% of accounts with a balance, closed or refinanced before or soon after converting.We perform credit management activities on home equity accounts to limit our loss exposure. These activities result in the suspension of available credit of most home equity junior lien accounts when the first lien position is delinquent, including when the junior lien is still current. We do not actively monitor the first lien delinquency status on an on-going basis when we do not own or service the first lien position beyond the initial notification of the first lien becoming delinquent. However, we actively monitor refreshed credit bureau scores of borrowers with junior liens, as these scores are highly sensitive to first lien mortgage delinquency. At June 30, 2012, our home equity junior lien loss severity was approximately 95%.

Several financial institutions began reclassifying performing home equity lines that are subordinate to nonperforming first mortgages into NPLs during the first quarter of 2012. As of June 30, 2012, we had $31 million of accruing home equity junior liens subordinate to nonperforming SunTrust owned or serviced first mortgages. While we do not have direct information on the delinquency status of first mortgages serviced by other parties, we refresh FICO scores on a quarterly basis, which provides an indication of the delinquency status of first mortgages serviced by others. As such, in total we estimate that we had $100 million to $175 million of accruing home equity junior liens subordinate to nonperforming first mortgages serviced by either SunTrust or other parties. Our methodology for calculating the ALLL considers the financial condition of the borrower, either through the direct knowledge we have from servicing the first mortgage or through the regular refreshing of FICO scores, which quickly respond to borrower delinquencies. Despite our monitoring and consideration given to junior liens in our ALLL process, we intend to reclassify performing home equity lines that are subordinate to nonperforming first mortgages into NPLs, during the third quarter. This reclassification during the third quarter will not impact our ALLL estimate given the frequency in which FICO scores are refreshed, will have an immaterial impact on our Consolidated Statements of Income, and a moderate impact on our level of NPLs.

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

Loan Portfolio by Types of Loans			Table 5	
(Dollars in millions)	June 30, 2012	December 31, 2011	% Change	
Commercial loans:				
Commercial & industrial	$52,030	$49,538	5	%
Commercial real estate	4,825	5,094	(5	)
Commercial construction	959	1,240	(23	)
Total commercial loans	57,814	55,872	3	
Residential loans:				
Residential mortgages - guaranteed	5,663	6,672	(15	)
Residential mortgages - nonguaranteed[1]	24,405	23,243	5	
Home equity products	15,281	15,765	(3	)
Residential construction	853	980	(13	)
Total residential loans	46,202	46,660	(1	)
Consumer loans:				
Guaranteed student loans	7,248	7,199	1	

Other direct	2,225	2,059	8	
Indirect	10,506	10,165	3	
Credit cards	565	540	5	
Total consumer loans	20,544	19,963	3	
LHFI	$124,560	$122,495	2	%
LHFS	$3,123	$2,353	33	%

[1]Includes $405 million and $431 million of loans carried at fair value at June 30, 2012 and December 31, 2011, respectively.

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Loans Held for Investment

Our LHFI portfolio has demonstrated solid growth of $2.1 billion during the six months ended June 30, 2012 and performing loans grew by $2.5 billion. The most notable increases were in the commercial and industrial and nonguaranteed residential mortgage loan classes, which grew by a combined $3.7 billion, partially offset by reductions in guaranteed residential mortgages and home equity products. We continued to make progress in our loan portfolio diversification strategy, as we have been successful both in growing targeted commercial and consumer areas and in reducing our exposure to certain residential and construction areas that we consider to be higher risk. Continuing to manage down our commercial and residential construction portfolios has resulted in a combined $408 million decline in these portfolios during the six months ended June 30, 2012, and an $8.2 billion decrease since the end of 2008, which has driven a significant improvement in our risk profile over a relatively short period of time. With a slightly improving economy, we expect to see continued loan growth in future quarters.

Commercial loans increased $1.9 billion, or 3%, during the six months ended June 30, 2012. Growth was driven by a $2.5 billion increase in commercial and industrial loans, partially offset by decreases in commercial construction loans and commercial real estate loans. Our larger corporate borrowers drove much of the increase in commercial and industrial loans. Additionally, while we had continued runoff in our commercial real estate portfolio, the pace of decline moderated during 2012 and there has been some early progress in generating commercial real estate loan production, where we anticipate seeing some portfolio growth in coming quarters. Meanwhile, commercial construction loans decreased 23%, primarily as a result of our efforts to reduce risk levels by aggressively managing existing construction exposure.

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

Residential loans remained relatively flat during the six months ended June 30, 2012 as a result of offsetting portfolio changes. We experienced declines across all residential loan classes except nonguaranteed residential mortgages, which increased $1.2 billion during the six months ended June 30, 2012, which largely offset the declines in the remaining residential classes. The increase in our nonguaranteed residential mortgage portfolio was a result of lower interest rates driving new loan growth and greater origination volume, net of payoffs. Nonguaranteed residential mortgage loan growth came predominantly from borrowers with high FICO scores (i.e. 760 or above) and lower LTV ratios. Conversely, government-guaranteed residential mortgages decreased $1.0 billion during the six months ended June 30, 2012, in part due to our decision to sell approximately $500 million of guaranteed residential mortgages to Fannie Mae and Freddie Mac. Our decision to grow government guaranteed loans over the past several years served as a transition to a time of organic loan growth, as well as helped to reduce the risk in the balance sheet in conjunction with the decline in high-risk loans. As recent quarters have yielded organic growth and the higher-risk loan balances have declined, and as part of our continued active management of the balance sheet, we elected to sell a portion of our guaranteed portfolio.

Consumer loans increased $581 million, or 3%, during the six months ended June 30, 2012. Growth came across all consumer loan classes with other direct and indirect loan classes leading the segment, increasing $166 million and $341 million, respectively. The increase in indirect loans was primarily the result of our purchase of a portfolio of approximately $269 million of loans predominantly comprised of borrowers with high FICO scores.

Loans Held for Sale

LHFS increased $770 million, up 33%, during the six months ended June 30, 2012. The increase was attributable to an increase in closed mortgage loan volume as a result of the continued low interest rate environment and expanded refinance programs announced by the U.S. government in 2012.

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Asset Quality

Our overall asset quality continued to trend favorably during 2012, with meaningful declines in nonperforming assets, NPLs, net charge-offs, and early stage delinquencies. NPLs declined 15%, from December 31, 2011 and totaled $2.5 billion as of June 30, 2012. Net charge-offs were down $72 million, or 17%, compared to the first quarter of 2012 and $304 million, or 28%, during the six months ended June 30, 2012 compared to the same period in 2011. The annualized net charge-off ratio fell to 1.14% and 1.26% during the three and six months ended June 30, 2012 compared to 1.76% and 1.89% during the same period in 2011. Early stage delinquencies, excluding government-guaranteed loans, improved to 0.51% of total loans from 0.68% at December 31, 2011. Total early stage delinquencies also improved to 0.97% from 1.17%. Our asset quality trends have been driven by actively managing down higher-risk loans combined with the decision to grow our government guaranteed loan portfolio over the past few years. A measure of our success in managing the risk of our loan portfolio can be seen in the improving asset quality metrics noted above and also in the level of government guaranteed loans compared to our total loans, which was 10% at June 30, 2012.

NPLs declined by over $400 million during the first half of 2012, and was evident across all of our loan classes, most prominently in our commercial construction, commercial real estate, and residential construction loans. At June 30, 2012, the percentage of NPLs to total loans was 1.97%, down 40 basis points from December 31, 2011. Net charge-offs continued a trend of steady reductions, totaling $350 million in the current quarter compared to $505 million in the second quarter of 2011 and $772 million during the six months ended June 30, 2012 compared to $1.1 billion during the same period in 2011. Nonguaranteed residential mortgages, home equity products, and commercial real estate were the largest drivers contributing to the decline in net charge-offs during both periods. Early stage delinquencies reached its lowest level in recent quarters of 0.97% at June 30, 2012, with a 36 basis point decrease in residential early stage delinquencies that led the decline from year end. Residential construction and nonguaranteed residential mortgages showed the largest improvements compared to year end, improving 140 basis points and 34 basis points, respectively. Any further improvement in overall delinquencies will be influenced by the overall economy, particularly by changes in unemployment and to a lesser extent, home values. In light of the continued favorable trends in credit quality, the ALLL declined to $2.3 billion at June 30, 2012, down $157 million from December 31, 2011. The ALLL represented 1.85% of total loans at June 30, 2012, down 16 basis points from year end. The decline in the ALLL was reflective of the continued improvement in asset quality across all loan segments, partially offset by growth in the loan portfolio. Overall, we were pleased with our trends in credit metrics and the improvements exceeded our expectations, particularly in net charge-offs. As we look forward, a recovering economy should continue to support our positive asset quality trends, with improvements primarily driven by the residential portfolio, as most of the commercial and consumer portfolios are currently nearing more normal credit metric levels. Looking specifically at the third quarter, we currently expect to see additional declines in nonperforming loans and relatively stable net charge-offs.

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

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

Loan Types by Geography — Table 6

	Commercial		Residential		Consumer	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Geography:						
Central[1]	27 %	28 %	21 %	21 %	15 %	14 %
Florida[2]	19	20	26	27	17	18
MidAtlantic[3]	25	26	36	36	25	25
Other	29	26	17	16	43	43

Total	100 %	100 %	100 %	100 %	100 %	100 %

[1] The Central region includes Alabama, Arkansas, Georgia, Mississippi, and Tennessee.
[2] The Florida region includes Florida only.
[3] The MidAtlantic region includes the District of Columbia, Maryland, North Carolina, South Carolina, and Virginia.

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ALLOWANCE FOR CREDIT LOSSES

At June 30, 2012, the allowance for credit losses was $2.4 billion, which consists of both the ALLL and the reserve for unfunded commitments. A rollforward of our allowance for credit losses, along with our summarized credit loss experience, is shown in the table below:

Summary of Credit Losses Experience — Table 7

	Three Months Ended June 30			Six Months Ended June 30		
(Dollars in millions)	2012	2011	% Change	2012	2011	% Change [5]
Allowance for Credit Losses						
Balance - beginning of period	$2,400	$2,908	(17)%	$2,505	$3,032	(17)%
(Benefit)/provision for unfunded commitments	(2)	(3)	(33)	2	(7)	NM
Provision for loan losses:						
Commercial loans	49	124	(60)	87	232	(63)
Residential loans	230	252	(9)	488	574	(15)
Consumer loans	23	19	21	40	40	—
Total provision for loan losses	302	395	(24)	615	846	(27)
Charge-offs:						
Commercial loans	(94)	(220)	(57)	(220)	(405)	(46)
Residential loans	(274)	(303)	(10)	(576)	(688)	(16)
Consumer loans	(29)	(40)	(28)	(64)	(85)	(25)
Total charge-offs	(397)	(563)	(29)	(860)	(1,178)	(27)
Recoveries:						
Commercial loans	31	41	(24)	56	70	(20)
Residential loans	6	6	—	11	11	—
Consumer loans	10	11	(9)	21	21	—
Total recoveries	47	58	(19)	88	102	(14)
Net charge-offs	(350)	(505)	(31)	(772)	(1,076)	(28)
Balance - end of period	$2,350	$2,795	(16)%	$2,350	$2,795	(16)%
Components:						
ALLL	$2,300	$2,744	(16)%			
Unfunded commitments reserve [1]	50	51	(2)			
Allowance for credit losses	$2,350	$2,795	(16)%			
Average loans	$123,365	$114,920	7 %	$122,954	$115,040	7 %
Period-end loans outstanding	124,560	114,913	8			
Ratios:						
ALLL to period-end loans [2,3]	1.85 %	2.40 %	(23 %)			
ALLL to NPLs [4]	94	77	22			
ALLL to net charge-offs (annualized)	1.64x	1.35x	21			
Net charge-offs to average loans (annualized)	1.14 %	1.76 %	(35)%	1.26 %	1.89 %	(33)%

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

[2] $406 million and $449 million, respectively, of LHFI carried at fair value were excluded from period-end loans in the calculation.

[3] Excluding government-guaranteed loans of $12.9 billion and $9.1 billion, respectively, from period-end loans in the calculation results in ratios of 2.07% and 2.61%, respectively.

[4] $19 million and $26 million, respectively, of NPLs carried at fair value were excluded from NPLs in the calculation.

[5] NM - not meaningful. Those changes over 100 percent were not considered to be meaningful.

Charge-offs

Net charge-offs declined $155 million, or 31%, during the three months ended June 30, 2012, compared with the three months ended June 30, 2011. For the six months ended June 30, 2012, net charge-offs declined by $304 million, or 28%, versus the six months ended June 30, 2011. The decline in net charge-offs occurred across each segment of our loan portfolio and was particularly notable for commercial loans. The ratio of annualized net charge-offs to average loans was 1.14% and 1.26% during the three and six months ended June 30, 2012, a reduction of 62 and 63 basis points, respectively, from the three and

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six months ended June 30, 2011. The continued improvement in net charge-offs has been the result of improved asset quality. For the third quarter, we expect charge-offs to remain relatively stable from second quarter levels.

Provision for Credit Losses

The total provision for credit losses includes the provision for loan losses, as well as the provision for unfunded commitments. The provision for loan losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. For the three months ended June 30, 2012, the provision for loan losses was down $93 million, or 24%, compared to the three months ended June 30, 2011. For the six months ended June 30, 2012, the provision for loan losses was down $231 million, or 27%, compared to the six months ended June 30, 2011. The decline in the provision for loan losses was attributable to lower net charge-offs and continued improvements in credit quality.
For the three months ended June 30, 2012 and 2011, the benefit for unfunded commitments was $2 million and $3 million, respectively. For the six months ended June 30, 2012, the provision for unfunded commitments was $2 million, compared with a benefit of $7 million for the six months ended June 30, 2011. The benefit for the quarter was attributed to lower levels of binding unused wholesale credit exposure.

ALLL and Reserve for Unfunded Commitments

Allowance for Loan Losses by Loan Segment — Table 8

(Dollars in millions)	As of June 30, 2012			As of December 31, 2011		
	ALLL	Segment ALLL as a % of total ALLL	Loan segment as a % of total loans	ALLL	Segment ALLL as a % of total ALLL	Loan segment as a % of total loans
Commercial loans	$887	39 %	46 %	$964	39 %	46 %
Residential loans	1,277	55	37	1,354	55	38
Consumer loans	136	6	17	139	6	16
Total	$2,300	100 %	100 %	$2,457	100 %	100 %

The ALLL decreased by $157 million, or 6%, during the six months ended June 30, 2012, with commercial, residential, and consumer loans-related ALLL declining $77 million, $77 million, and $3 million, respectively. The decrease in ALLL was reflective of the continued improvement in credit quality of each segment as evidenced by reductions in higher-risk balances, improved early stage delinquencies, and lower NPLs. Our risk profile continues to improve, as the amount of certain higher-risk loans continues to decline, while lower-risk government guaranteed loans remained relatively steady, comprising 10% of the portfolio. The variables most impacting the ALLL continue to be unemployment, residential real estate property values, and the variability and relative strength of the housing market. As of June 30, 2012, the ALLL to period-end loans ratio was 1.85%, down 16 basis points from December 31, 2011, consistent with continued improvement in asset quality and growth in the loan portfolio. When excluding government guaranteed loans, the ALLL to period-end loans declined to 2.07% at June 30, 2012 compared to 2.27% at December 31, 2011. The ratio of the ALLL to total NPLs was 94% as of June 30, 2012 compared to 85% as of December 31, 2011. The increase in this ratio was primarily attributable to the $445 million decrease in NPLs, partially offset by the decline in ALLL.
The reserve for unfunded commitments was $50 million as of June 30, 2012, an increase of $2 million, up 4% compared to $48 million at December 31, 2011.

NONPERFORMING ASSETS

The following table presents our nonperforming assets:

Table 9

(Dollars in millions)	June 30, 2012	December 31, 2011	% Change
Nonaccrual/NPLs:			
Commercial loans			
Commercial & industrial	$331	$348	(5)%
Commercial real estate	233	288	(19)
Commercial construction	131	290	(55)
Total commercial NPLs	695	926	(25)
Residential loans			
Residential mortgages - nonguaranteed	1,286	1,392	(8)
Home equity products	302	338	(11)
Residential construction	154	220	(30)
Total residential NPLs	1,742	1,950	(11)
Consumer loans			
Other direct	4	7	(43)
Indirect	17	20	(15)
Total consumer NPLs	21	27	(22)
Total nonaccrual/NPLs	2,458	2,903	(15)
OREO[1]	331	479	(31)
Other repossessed assets	11	10	10
Total nonperforming assets	$2,800	$3,392	(17)%
Accruing loans past due 90 days or more	$2,150	$2,028	6 %
TDRs:			
Accruing restructured loans	$2,699	$2,820	(4)%
Nonaccruing restructured loans[2]	694	802	(13)
Ratios:			
NPLs to total loans	1.97 %	2.37 %	(17)%
Nonperforming assets to total loans plus OREO and other repossessed assets	2.24	2.76	(19)

[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 FHA or the VA totaled $124 million and $132 million at June 30, 2012 and December 31, 2011, respectively.

[2] Nonaccruing restructured loans are included in total nonaccrual/NPLs.

Nonperforming assets decreased $592 million, or 17%, during the six months ended June 30, 2012. Overall, the decrease was attributed to a $445 million decline in NPLs and reductions in OREO. The continued NPL declines were largely driven by commercial loans, as the higher-risk commercial construction portfolio has been greatly reduced, while the commercial real estate and commercial and industrial loan portfolios experienced further declines during 2012. Another driver of the decline since year end was the 8% reduction in the nonguaranteed residential mortgage NPLs, primarily the result of a $116 million transfer of certain of these loans to held for sale during 2012, and completion of the sale of those loans during the second quarter. In the third quarter of 2012, we expect the declining trend in NPLs to continue, which will be partially offset by the expected reclassification into NPLs of performing home equity lines that are subordinate to nonperforming first mortgages. We currently believe this reclassification will not impact our allowance estimate given the frequency in which FICO scores are refreshed, will have an immaterial impact on our Consolidated Statements of Income, and a moderate impact on our level of NPLs.

Real estate related loans comprise a significant portion of our overall nonperforming assets as a result of the condition of the U.S. housing market. The amount of time necessary to obtain control of residential real estate collateral in certain states, primarily Florida, has remained elevated due to delays in the foreclosure process. These delays may impact the resolution of real estate related loans within the nonperforming assets portfolio.

Nonaccrual loans, loans over 90 days past due and still accruing, and TDR loans, are problem loans or loans with potential weaknesses that are disclosed in the nonperforming assets table above. Loans with potential credit problems that may not otherwise be disclosed in this table include accruing criticized commercial loans, which are disclosed along with additional

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credit quality information in Note 3, “Loans,” to the Consolidated Financial Statements in this Form 10-Q. As of June 30, 2012 and December 31, 2011, there are no significant potential problem loans that are not otherwise disclosed.

Nonperforming Loans

Nonperforming commercial loans were the largest driver of the overall decline in NPLs, declining $231 million during the six months ended June 30, 2012, followed closely by residential loans, decreasing $208 million. Specifically, the 25% reduction in nonperforming commercial loans during the six months ended June 30, 2012 was predominantly driven by a $159 million reduction in commercial construction NPLs combined with a $55 million reduction in commercial real estate NPLs. As we move through current commercial real estate market conditions, we continue to expect some variability in inflows of commercial real estate NPLs.

Nonperforming residential loans decreased $208 million, down 11%, during the six months ended June 30, 2012. The reduction in nonguaranteed residential mortgage NPLs accounted for $106 million of this decline, primarily due to the transfer of $116 million of residential mortgage NPLs to LHFS during 2012, the majority of which were sold prior to June 30, 2012 with the remaining immaterial amount returned to LHFI as the loans were no longer deemed marketable for sale. Reductions in residential construction and home equity NPLs also contributed to the decline, decreasing $66 million and $36 million, respectively, mainly attributable to net charge-offs and lower inflows into NPLs. We expect some variability in inflows of nonperforming residential loans during the remainder of 2012, primarily as a result of mortgage loan repurchases from investors. Additionally, as further discussed in the "Loans" section above, we plan to reclassify performing home equity lines that are subordinate to nonperforming first mortgages into NPLs, during the third quarter of 2012. This reclassification is expected to moderately impact the level of our NPLs. See additional discussion of mortgage loan repurchases in Note 11, "Reinsurance Arrangements and Guarantees," to the Consolidated Financial Statements in this Form 10-Q and the "Noninterest Income" section of this MD&A.

Nonperforming consumer loans declined $6 million, down 22%, during the six months ended June 30, 2012, resulting from $3 million decreases in both other direct and indirect consumer NPLs. These decreases were driven by net charge-offs of existing nonperforming consumer loans during the year, largely offset by the migration of delinquent consumer loans to nonaccrual status.

Interest income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis. Interest income on commercial nonaccrual loans is not typically recognized until after the principal has been reduced to zero. We recognized $6 million and $10 million of interest income related to nonaccrual loans for the three months ended June 30, 2012 and 2011, respectively, and $14 million and $18 million for the six months ended June 30, 2012 and 2011, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of $41 million and $65 million during the three months ended June 30, 2012 and 2011, respectively, and $87 million and $136 million for the six months ended June 30, 2012 and 2011, respectively, would have been recognized.

Other Nonperforming Assets

OREO decreased $148 million, or 31%, during the six months ended June 30, 2012. The decline consisted of net decreases of $67 million in residential homes, $67 million in residential construction related properties, and $14 million in commercial properties. During the six months ended June 30, 2012 and 2011, sales of OREO resulted in proceeds of $259 million and $351 million, respectively, contributing to a net gain on sales of OREO of $3 million and net loss on sales of $1 million, respectively, inclusive of valuation reserves, primarily related to lots and land evaluated under the pooled approach. Sales of OREO and the related gains or losses are highly dependent on our disposition strategy and buyer opportunities. See Note 12, “Fair Value Election and Measurement,” to the Consolidated Financial Statements in this Form 10-Q for more information. Gains and losses on sale of OREO are recorded in other real estate expense in the Consolidated Statements of Income. Geographically, most of our OREO properties are located in Georgia, Florida, and North Carolina. Residential properties and land comprised 36% and 37%, respectively, of OREO; the remainder is related to commercial and other properties. Upon foreclosure, the values of these properties were reevaluated and, if necessary, written down to their then-current estimated value, less costs to sell. Further declines in home prices could result in additional losses on these properties. We are actively managing

and disposing of these foreclosed assets to minimize future losses.
The majority of our past due accruing loans are residential mortgages and student loans that are fully guaranteed by a federal agency. At June 30, 2012 and December 31, 2011, $68 million and $57 million, respectively, of accruing loans past due ninety days or more were not guaranteed. Accruing loans past due ninety days or more increased by $122 million, up 6% during the six months ended June 30, 2012, essentially attributable to guaranteed residential mortgages and student loans.
At the end of 2010, we completed an internal review of STM’s residential foreclosure processes. Since that review, we have continued to improve upon our processes as a result of our review. Additionally, following the Federal Reserve's horizontal

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review of the nation's largest mortgage loan servicers, SunTrust and other servicers entered into Consent Orders with the FRB. We describe the Consent Order in Note 13, "Contingencies," to the Consolidated Financial Statements in this Form 10-Q and a copy of it was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011. The Consent Order requires us to improve certain processes and to retain an independent consultant to conduct a review of residential foreclosure actions pending during 2009 and 2010 to identify any errors, misrepresentations or deficiencies, determine whether any instances so identified resulted in financial injury, and prepare a written report detailing the findings. Additionally, borrowers who had a residential foreclosure action pending during this two-year review period have been solicited through advertising and direct mailings to request a review by the independent consultant of their case if they believe they incurred a financial injury as a result of errors, misrepresentations or other deficiencies in the foreclosure process. The deadline for submitting requests for review has been extended to September 30, 2012, and direct mail, internet, and media efforts to reach borrowers will continue. These requirements prescribed by the Consent Order may result in additional delays in the foreclosure process at a time when the time required for foreclosure upon residential real estate collateral in certain states, primarily Florida, continues to be elevated. These delays in the foreclosure process have adversely affected us by increasing our expenses related to carrying such assets, such as taxes, insurance, and other carrying costs, and by exposing us to losses as a result of potential additional declines in the value of such collateral. These delays have also resulted, in some cases, in an inability to meet certain investor foreclosure timelines for loans we service for others, which has resulted, and is expected to continue to result, in the assessment of compensatory fees. Noninterest expense in our Mortgage Banking line of business increased during the six months ended June 30, 2012 compared with the six months ended June 30, 2011 as a result of compensatory fees and the additional resources necessary to perform the foreclosure process assessment, revise affidavit filings, and make any other operational changes. Additionally, continuing and evolving changes in the regulatory environment and industry standards have increased our default servicing costs. Finally, the time to complete foreclosure sales has remained extended, and this has resulted in an increase in servicing advances, and has adversely impacted the collectability of such advances. Accordingly, additional delays in foreclosure sales, including any delays beyond those currently anticipated, our process enhancements, and any issues that may arise out of alleged irregularities in our foreclosure processes, could further increase the costs associated with our mortgage operations.

Restructured Loans

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

Accruing loans with modifications deemed to be economic concessions resulting from borrower difficulties are reported as accruing TDRs. Nonaccruing loans that are modified and demonstrate a history of repayment performance in accordance with their modified terms are reclassified to accruing restructured status, typically after six months of repayment performance. Generally, once a residential loan becomes a TDR, we expect that the loan will continue to be reported as a TDR for its remaining life even after returning to accruing status as the modified rates and terms at the time of modification were typically more favorable than those generally available in the market at the time of the modification. We note that some restructurings may not ultimately result in the complete collection of principal and

interest (as modified by the terms of the restructuring), culminating in default, which could result in additional incremental losses. These potential incremental losses have been factored into our overall ALLL estimate through the use of loss forecasting methodologies. Roll rate models used to forecast losses on the residential mortgage and consumer TDRs are calculated and analyzed separately using their own portfolio attributes and history, thereby reflecting an increased PD compared to loans that have not been restructured. The level of re-defaults will likely be affected by future economic conditions. At June 30, 2012 and December 31, 2011, specific reserves included in the ALLL for residential TDRs were $355 million and $405 million, respectively. See Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q for more information.

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

Selected Residential TDR Data Table 10

	As of June 30, 2012					
	Accruing TDRs			Nonaccruing TDRs		
(Dollars in millions)	Current	Delinquent[1]	Total	Current	Delinquent[1]	Total
Rate reduction	$457	$39	$496	$17	$60	$77
Term extension	20	5	25	—	20	20
Rate reduction and term extension	1,705	225	1,930	34	400	434
Other [2]	18	4	22	2	10	12
Total	$2,200	$273	$2,473	$53	$490	$543

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

[1] TDRs considered delinquent for purposes of this table were those at least thirty days past due.

[2] Primarily consists of extensions and deficiency notes.

At June 30, 2012, our total TDR portfolio was $3.4 billion and was composed of $3.0 billion, or 89%, of residential loans (predominantly first and second lien residential mortgages and home equity lines of credit), $327 million, or 10%, of commercial loans (predominantly income-producing properties), and $51 million, or 1%, of direct consumer loans.

Total TDRs declined $229 million during the six months ended June 30, 2012. Accruing TDRs decreased by $121 million during the six months ended June 30, 2012, attributable to repayments and a general decrease in the loan balances modified during the year. Nonaccruing TDRs were down $108 million, or 13%, primarily reflecting net charge-offs, as well as repayments during the year. See additional discussion in Note 3, "Loans," to the Consolidated Financial Statements in this Form 10-Q.

Interest income on restructured loans that have met sustained performance criteria and have been returned to accruing status is recognized according to the terms of the restructuring. Such interest income recorded was $30 million and $28 million for the three months ended June 30, 2012 and 2011, respectively, and $59 million and $55 million for the six months ended June 30, 2012 and 2011, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of $40 million and $39 million for the three months ended June 30, 2012 and 2011, respectively, and $79 million and $76 million for the six months ended June 30, 2012 and 2011, respectively, would have been recognized.

SELECTED FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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Trading Assets and Liabilities Table 11

(Dollars in millions)	June 30, 2012	December 31, 2011
Trading Assets		
U.S. Treasury securities	$125	$144
Federal agency securities	521	478
U.S. states and political subdivisions	58	54
MBS - agency	371	412
MBS - private	1	1
CDO/CLO securities	45	45
ABS	37	37
Corporate and other debt securities	560	344
CP	113	229
Equity securities	91	91
Derivatives [1]	2,190	2,414
Trading loans [2]	2,215	2,030
Total trading assets	$6,327	$6,279
Trading Liabilities		
U.S. Treasury securities	$330	$569
Corporate and other debt securities	301	77
Equity securities	22	37
Derivatives [1]	1,129	1,123
Total trading liabilities	$1,782	$1,806

[1]Amounts are offset with cash collateral received from or deposited with derivative counterparties when the derivative contracts are subject to ISDA master netting arrangements.
[2] Includes loans related to TRS

Trading Assets and Liabilities
Trading assets increased $48 million, or 1%, since December 31, 2011, driven by normal changes in trading portfolio product mix including federal agency securities, corporate and other debt securities, and trading loans. This increase was predominantly offset by a decrease in CP and derivatives. Gross derivative assets decreased $317 million, but were partially offset by a decrease of $93 million in cash collateral. See Note 10, "Derivative Financial Instruments," and Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for additional information on trading assets.
Trading liabilities decreased $24 million, or 1%, since December 31, 2011, predominantly due to a decrease in U.S. Treasury securities, mostly offset by an increase in corporate and other debt securities as a result of normal business activity. Gross derivative liabilities increased $44 million during the quarter offset by cash collateral which increased $38 million. See Note 10, "Derivative Financial Instruments," and Note 12, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for additional information on trading liabilities.

Securities Available for Sale Table 12

(Dollars in millions)	June 30, 2012 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$214	$10	$—	$224
Federal agency securities	1,698	85	—	1,783
U.S. states and political subdivisions	359	19	6	372
MBS - agency	17,308	803	1	18,110
MBS - private	225	—	17	208
ABS	344	9	5	348
Corporate and other debt securities	42	3	—	45
Coke common stock	—	2,346	—	2,346
Other equity securities[1]	972	1	—	973
Total securities AFS	$21,162	$3,276	$29	$24,409

[1]At June 30, 2012, other equity securities included the following securities at cost: $455 million in FHLB of Atlanta stock, $401 million in Federal Reserve Bank stock, and $116 million in mutual fund investments.

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

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

Securities Available for Sale

The securities AFS portfolio is managed as part of our overall ALM process to optimize income and portfolio value over an entire interest rate cycle while mitigating the associated risks. The size of the securities portfolio, at fair value, was $24.4 billion as of June 30, 2012, a decrease of $3.7 billion, or 13%, compared with December 31, 2011. Changes in the size and composition of the portfolio during the six months reflect our efforts to maintain a high quality portfolio and manage our interest rate risk profile. During the first six months of 2012, we repositioned the U.S. Treasury and Federal agency securities into agency MBS in an effort to capture better relative value. Subsequently, we reduced the size of the securities portfolio by selling low coupon agency MBS. During the six months ended June 30, 2012, we recorded $32 million in net realized gains from the sale of securities AFS as a result of the aforementioned activities in our portfolio, compared with net realized gains of $96 million during the same period in 2011, including $4 million and $2 million in OTTI, respectively. For additional information on composition and valuation assumptions related to securities AFS, see Note 2, "Securities Available for Sale", and the “Trading Assets and Securities Available for Sale” section of Note 12, “Fair Value Election and Measurement,” to the Consolidated Financial Statements in this Form 10-Q.

At June 30, 2012, the carrying value of securities AFS reflected $3.2 billion in net unrealized gains, comprised of a $2.3 billion gross unrealized gain from our 30 million shares of Coke common stock and a $901 million net unrealized

gain on the remainder of the portfolio. At December 31, 2011, the carrying value of securities AFS reflected $2.9 billion in net unrealized gains, which were comprised of a $2.1 billion gross unrealized gain from our 30 million shares of Coke common stock and a $848 million net unrealized gain on the remainder of the portfolio. The net unrealized gain, excluding Coke, increased due to the decrease in interest rates experienced during the first six months of 2012 and the change in the AFS

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portfolio's composition. The Coke common stock is subject to variable forward agreements which are discussed in Note 10, “Derivative Financial Instruments,” to the Consolidated Financial Statements in this Form 10-Q and in the "Investment in Common shares of the Coca-Cola Company" section of our Annual Report on Form 10-K for the year ended December 31, 2011.
For the three months ended June 30, 2012, the average yield on a FTE basis for the securities AFS portfolio was 3.16%, compared with 3.40% from the three months ended June 30, 2011. For the six months ended June 30, 2012, the average yield on a FTE basis for the securities AFS portfolio was 3.17%, compared with 3.29% for the six months ended June 30, 2011. While repositioning certain securities provided incremental yield, cash flow run-off from higher yielding securities was the primary reason for the yield decline.
Our total investment securities portfolio had an effective duration of 1.9 years as of June 30, 2012 compared to 2.3 years as of December 31, 2011. Effective duration is a measure of price sensitivity of a bond portfolio to an immediate change in market interest rates, taking into consideration embedded options. An effective duration of 1.9 years suggests an expected price change of 1.9% for a one percent instantaneous change in market interest rates.
The credit quality of the securities portfolio remained strong at June 30, 2012 and, consequently, we have the flexibility to respond to changes in the economic environment and take actions as opportunities arise to manage our interest rate risk profile and balance liquidity against investment returns.
Over the longer term, the size and composition of the investment portfolio will reflect balance sheet trends and our overall liquidity and interest rate risk management objectives. Accordingly, the size and composition of the investment portfolio could change meaningfully over time.

BORROWINGS

Short-Term Borrowings — Table 13

	As of June 30, 2012		Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
			Daily Average		Maximum Outstanding at any Month-End	Daily Average		Maximum Outstanding at any Month-End
(Dollars in millions)	Balance	Rate	Balance	Rate		Balance	Rate	
Funds purchased[1]	$847	0.09 %	$810	0.11 %	$847	$840	0.11 %	$908
Securities sold under agreements to repurchase[1]	1,583	0.20	1,646	0.18	1,710	1,640	0.16	1,781
FHLB advances	5,500	0.28	5,225	0.25	5,500	6,310	0.20	9,000
Other short-term borrowings[2]	1,598	0.53	1,717	0.32	1,875	1,746	0.36	1,878

	As of June 30, 2011		Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
			Daily Average		Maximum Outstanding at any Month-End	Daily Average		Maximum Outstanding at any Month-End
(Dollars in millions)	Balance	Rate	Balance	Rate		Balance	Rate	
Funds purchased [1]	$939	0.12 %	$1,001	0.12 %	$990	$1,057	0.15 %	$1,169
Securities sold under agreements to repurchase [1]	2,253	0.14	2,264	0.14	2,253	2,283	0.15	2,411
Other short-term borrowings [2]	2,791	0.70	2,934	0.38	3,048	2,847	0.40	3,048

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

[2]Other short-term borrowings includes master notes, dealer collateral, U.S. Treasury demand notes, CP, and other short-term borrowed funds.

Short-Term Borrowings

As of June 30, 2012, our period-end short-term borrowings increased by $3.5 billion, or 59%, from June 30, 2011, due predominantly to a $5.5 billion increase in short-term FHLB advances as a result of utilization of the FHLB advance program as an alternative for shorter term funding. The increase was partially offset by a $761 million decrease in dealer collateral, which was reclassified to offset derivatives, a $670 million decrease in securities sold under agreement to repurchase, and a decrease of $241 million in master notes. Average short-term borrowings increased by $3.2 billion, or 52%, compared to the second quarter of 2011. The increase was primarily attributable to increased average FHLB advances of $5.2 billion, partially offset by a decrease in average dealer collateral of $830 million, a decline in average securities sold under agreements to repurchase of $618 million, and a decrease in average funds purchased of $191 million. For the first six months of 2012, average short-term borrowings increased by $4.3 billion, or 70%, compared to the six months ended June 30, 2011. The

increase was primarily attributable to increased average FHLB advances of $6.3 billion, partially offset by a decrease in average dealer collateral of $792 million, a decline in average securities sold under agreements to repurchase of $643 million, and a decrease in average funds purchased of $217 million.

For the three and six months ended June 30, 2012 and 2011, our period-end outstanding balances for funds purchased, securities sold under agreements to repurchase, and other short-term borrowings were not materially different from maximum monthly outstanding balances or from the daily averages. For the six months ended June 30, 2012, our period-end FHLB advances were materially different than the maximum monthly outstanding balance as a result of higher holdings of FHLB borrowings at certain points during the six months ended June 30, 2012 due to ordinary balance sheet management practices. There were no short-term FHLB advances outstanding during the three and six months ended June 30, 2011.

Long-Term Debt

During the six months ended June 30, 2012, our long-term debt increased by $2.2 billion, which was primarily due to an increase in long-term FHLB advances of $4.0 billion, as part of an interest rate risk management strategy, offset by the maturity and redemption of $1.4 billion of floating rate senior unsubordinated notes and $589 million of five year floating rate senior foreign denominated unsubordinated notes. As of June 30, 2012, we have no outstanding government guaranteed debt issued under the FDIC's Temporary Liquidity Guarantee Program. Included in our long-term debt as of June 30, 2012 was $1.2 billion of trust preferred securities, which were subsequently redeemed in July. There have been no other material changes in our long-term debt as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

CAPITAL RESOURCES

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

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

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

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

approximately 8.0%, which is comfortably in excess of the proposed requirements. The regulatory agencies are asking financial institutions to provide comment on the NPR by September 7, 2012. The agencies are expected to consider the feedback and draft a final rule, which could take several quarters to complete. Accordingly, the final rule may differ from the current NPR. Further, the NPR indicates a phase-in for the new capital rules with the proposed risk-weightings requirement not becoming effective until 2015. Notwithstanding the uncertainty surrounding the timing and content of the final rule, our current Tier 1 common ratio estimate that was determined using the NPR assumptions did not include the effect of any mitigating actions we may undertake to offset some of the anticipated impact of the proposed capital changes. Our estimate of the current period Tier 1 common ratio under the NPR was calculated using the assumptions prescribed in the NPR, which can be found on the Federal Reserve's website. We monitor our capital structure to ensure it complies with

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current regulatory and prescribed operating levels and are taking into account these proposed regulations in our capital and strategic planning.

Capital Ratios — Table 14

(Dollars in millions)	June 30, 2012	December 31, 2011
Tier 1 capital	$13,774	$14,490
Total capital	17,431	18,177
RWA	135,708	132,940
Tier 1 common equity:		
Tier 1 capital	$13,774	$14,490
Less:		
Qualifying trust preferred securities	627	1,854
Preferred stock	275	275
Allowable minority interest	112	107
Tier 1 common equity	$12,760	$12,254
Risk-based ratios:		
Tier 1 common equity	9.40 %	9.22 %
Tier 1 capital	10.15	10.90
Total capital	12.84	13.67
Tier 1 leverage ratio	8.15	8.75
Total shareholders’ equity to assets	11.54	11.35

Tier 1 common equity, Tier 1 capital, and total capital ratios were 9.40%, 10.15%, and 12.84%, respectively, at June 30, 2012 compared with 9.22%, 10.90%, and 13.67%, respectively, at December 31, 2011. The decrease in our Tier 1 and total capital ratios was primarily a result of the impact of the redemption of $38 million of outstanding trust preferred securities in the second quarter and the redemption of an additional $1.2 billion of outstanding trust preferred securities in July, which were required to be excluded from our capital calculations as of June 30, 2012. The estimated impact on Tier 1 and total capital at June 30, 2012 of excluding the trust preferred securities that were redeemed in June and July was approximately 90 basis points. At June 30, 2012, our capital ratios remain strong, exceeding current regulatory requirements, and are still expected to comfortably exceed the proposed requirements under the NPR as discussed above.

The Federal Reserve completed its most recent CCAR for the nineteen largest U.S. bank holding companies in March 2012. The Federal Reserve's review indicated that our capital exceeded requirements throughout the Supervisory Stress Test time horizon without any additional capital actions. Additionally, the Federal Reserve did not object to us maintaining our current quarterly common stock dividend of $0.05 per share and our plans to redeem certain trust preferred securities at such time as their governing documents permit, including when these securities are no longer expected to qualify as Tier 1 capital. Accordingly, during the first and second quarters of 2012, we declared a quarterly common stock dividend of $0.05 per share and in June 2012 we redeemed $38 million of the outstanding trust preferred securities and commenced the redemption of an additional $1.2 billion, which was subsequently completed in July as planned.

As a result of the Federal Reserve objecting to certain other capital actions in our CCAR submission, we submitted a revised capital plan in June 2012. In the revised submission, we did not request any incremental return of capital due to the close proximity of the revised submission to the 2013 CCAR process, which is expected to commence in the fourth quarter of 2012 and will provide us an opportunity to consider future capital deployment alternatives. We expect that the Federal Reserve will complete their review of our revised capital plan by the end of the third quarter. During the six months ended June 30, 2012, we declared and paid common dividends totaling $54 million, or $0.10 per common share, compared with $11 million, or $0.02 per common share during the same period in 2011. Additionally, we declared and paid dividends during the six months ended June 30, 2012 and 2011 of $6 million and $4 million, respectively, on our preferred stock. Further, during the six months ended June 30, 2011, we declared and

paid dividends of $60 million to the U.S. Treasury on the Series C and D Preferred Stock.
We remain subject to certain considerations on our ability to increase our dividend. If we increase our quarterly dividend above $0.54 per share prior to the tenth anniversary of our participation in the CPP, then the exercise price and the number of shares to be issued upon exercise of the warrants issued in connection with our participation in the CPP will be proportionately adjusted. See Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2011 for additional considerations regarding the level of future dividends. Additionally, limits exist on the ability of the Bank to pay

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dividends to the Parent Company. Substantially all of our retained earnings are undistributed earnings of the Bank. At June 30, 2012, retained earnings of the Bank available for payment of cash dividends to the Parent Company totaled approximately $1.3 billion; however, use of this amount for payment of dividends to the Parent Company is subject to regulatory approval by federal and state bank regulatory authorities.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to our Critical Accounting Policies as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

ENTERPRISE RISK MANAGEMENT

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

Credit Risk Management

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

Operational Risk Management

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

Market Risk Management

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices. Interest rate risk, defined as the exposure of NII and MVE to adverse movements in interest rates, is our primary market risk and mainly arises from the structure of our balance sheet, which includes all loans. Variable rate loans, prior to any hedging related actions, are approximately 56% of total loans and after giving consideration to hedging related actions, are approximately 46% of total loans. We are also exposed to market risk in our trading instruments carried at fair value. ALCO meets regularly and is responsible for reviewing our open positions and establishing policies to monitor and limit exposure to market risk.

Market Risk from Non-Trading Activities

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

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

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

As the future path of interest rates cannot be known in advance, we use simulation analysis to project NII under various interest rate scenarios including implied forward and deliberately extreme and perhaps unlikely scenarios. The analyses may include rapid and gradual ramping of interest rates, rate shocks, basis risk analysis, and yield curve twists. Each analysis incorporates what management believes to be the most appropriate assumptions about client behavior in an interest rate scenario. Specific strategies are also analyzed to determine their impact on NII levels and sensitivities.

The sensitivity analysis included below is measured as a percentage change in NII due to an instantaneous 100 basis point move in benchmark interest rates. Estimated changes set forth below are dependent upon material assumptions such as those previously discussed. The NII profile reflects a relatively neutral interest rate sensitive position with respect to an instantaneous 100 basis point change in rates.

Interest Rate Sensitivity from an Economic Perspective Table 15

	Estimated % Change in NII Over 12 Months	
(Basis points)	June 30, 2012	December 31, 2011
Rate Change		
+100	2.5%	1.5%
-100[1]	(1.8)%	(1.8)%

[1] Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

The recognition of interest rate sensitivity from an economic perspective (above) is different from a financial reporting perspective (below) due to certain interest rate swaps that are used as economic hedges for fixed rate debt. The above profile includes the recognition of the net interest payments from these swaps, while the profile below does not include the net interest payments. The swaps are accounted for as trading assets. Therefore, the benefit to income due to a decline in short term interest rates will be recognized as a gain in the fair value of the swaps and will be recorded as an increase in trading income from a financial reporting perspective.

Interest Rate Sensitivity from a Financial Reporting Perspective Table 16

	Estimated % Change in NII Over 12 Months	
(Basis points)	June 30, 2012	December 31, 2011
Rate Change		
+100	2.8%	1.8%
-100[1]	(1.9)%	(2.0)%

[1] Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

The difference from December 31, 2011 to June 30, 2012 seen above in both the economic and financial reporting perspectives related to the +100 basis point shock scenario is primarily due to an increase in asset sensitivity from projected balance sheet growth of floating rate assets and fixed rate deposits.

We also perform valuation analysis, which we use for discerning levels of risk present in the balance sheet and derivative positions that might not be taken into account in the NII simulation analysis above. Whereas NII simulation highlights exposures over a relatively short time horizon, valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset cash flows and derivative cash flows minus the discounted present value of liability cash flows, the net of which is referred to as MVE. The sensitivity of MVE to changes in the level of interest rates is a measure of the longer-term repricing risk and options risk embedded in the balance sheet. Similar to the NII simulation, MVE uses instantaneous changes in rates. MVE values only the current balance sheet and does not incorporate the growth assumptions that are used in the NII simulation model. As with the NII simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the MVE analysis.

Particularly important are the assumptions driving prepayments and the expected changes in balances and pricing of the indeterminate deposit portfolios.

The +100 basis point MVE sensitivity scenario depicts a slight loss of value as rates increase which indicates asset durations are slightly longer than liability durations. The increase in NII for the same scenario indicates a greater amount of assets than liabilities repricing to higher yields over the next year. Comparing both profiles indicates a balance sheet with a slightly higher weighted average duration of assets combined with a higher percentage of floating rate assets compared to liabilities.

As of June 30, 2012, the MVE profile indicates changes with respect to an instantaneous 100 basis point change in rates. MVE sensitivity is reported in both upward and downward rate shocks. However, results at June 30, 2012 in the downward rate shock were significantly less meaningful than the upward rate shock. In a -100 shock scenario, current interest rate levels that are already at or near 0% are adversely impacting discounted cash flow analysis causing the short end of the discount curve to be zero bound and therefore, the shock behaves more like a curve flattener than a parallel shock; these impact sensitivity measures in a non-intuitive manner.

Market Value of Equity Sensitivity — Table 17

	Estimated % Change in MVE	
(Basis points)	June 30, 2012	December 31, 2011
Rate Change		
+100	(0.1)%	(2.4)%
-100[1]	(3.4)%	(0.9)%

[1] Given the inherent limitations of certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under an extremely adverse scenario, we believe that a gradual shift in interest rates would have a much more modest impact. Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current fiscal year). Further, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates. The NII simulation and valuation analyses do not include actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Market Risk from Trading Activities

Under established policies and procedures, we manage market risk associated with trading, capital markets, and foreign exchange activities using a VAR approach that determines total exposure arising from interest rate risk, equity risk, foreign exchange risk, spread risk, and volatility risk. For trading portfolios, VAR measures the estimated maximum loss from a trading position, given a specified confidence level and time horizon. VAR exposures and actual results are monitored daily for each trading portfolio. Our VAR calculation measures the potential trading losses using a one day holding period at a one-tail, 99% confidence level. This means that, on average, trading losses are expected to exceed VAR one out of 100 trading days, or two to three times per year. We had no backtest exceptions to our overall firmwide VAR during the three and six months ended June 30, 2012 and 2011. The following table presents high, low, and average VAR for the three and six months ended June 30, 2012 and 2011.

Value at Risk Profile — Table 18

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(Dollars in millions)	2012	2011	2012	2011
Average VAR	$4	$5	$5	$5
High VAR	$5	$6	$5	$7
Low VAR	$4	$4	$4	$4

Average VAR during the three months ended June 30, 2012 was lower compared to the three months ended June 30, 2011 primarily due to a reduction in assets during the period. While VAR can be a useful risk management tool, it does have inherent limitations including the assumption that past market behavior is indicative of future market performance. As such, VAR is only one of several tools used to manage trading risk. Specifically, scenario analysis, stress testing, profit and loss attribution, and stop loss limits are among other tools also used to actively manage trading risk.

Trading assets, net of trading liabilities, averaged $4.6 billion and $3.6 billion for the three months ended June 30, 2012 and 2011, respectively, and $4.7 billion and $3.6 billion for the six months ended June 30, 2012 and 2011. Trading assets, net of trading liabilities, were $4.5 billion and $3.6 billion at June 30, 2012 and 2011, respectively. The increase in average and period-end trading balances was primarily a result of an increase in the TRS portfolio.

Liquidity Risk

Liquidity risk is the risk of being unable to meet obligations as they come due at a reasonable funding cost. We mitigate this risk by structuring our balance sheet prudently and by maintaining diverse borrowing resources to fund potential cash needs. For example, we structure our balance sheet so that we fund less liquid assets, such as loans, with stable funding sources, such as retail and wholesale deposits, long-term debt, and capital. We primarily monitor and manage liquidity risk at the Parent Company and Bank levels as the non-bank subsidiaries are relatively small and these subsidiaries ultimately rely upon the Parent Company as a source of liquidity in adverse environments.

The Bank's primary liquid assets consist of excess reserves and free and liquid securities in its investment portfolio. The Bank manages its investment portfolio primarily as a store of liquidity, maintaining the strong majority of its securities in liquid and high-grade asset classes such as agency MBS, agency debt, and U.S. Treasury securities. As of June 30, 2012, the Bank's AFS investment portfolio contained $12.5 billion of free and liquid securities at book value, of which approximately 93% consisted of agency MBS, agency debt, and U.S. Treasury securities.

We manage the Parent Company to maintain most of its liquid assets in cash and securities that could be quickly converted to cash. Unlike the Bank, it is not typical for the Parent Company to maintain a material investment portfolio of publicly traded securities. We manage the Parent Company cash balance to provide sufficient liquidity to fund all forecasted obligations (primarily debt and capital service) for an extended period of months in accordance with Company risk limits.

We assess liquidity needs that may occur in both the normal course of business and times of unusual events, considering both on- and off-balance sheet arrangements and commitments that may impact liquidity in certain business environments. We have contingency funding plans that assess liquidity needs that may arise from certain stress events such as credit rating downgrades, severe economic recessions, and financial market disruptions. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingent liquidity. These sources of contingent liquidity include available cash reserves; the ability to sell, pledge, or borrow against unencumbered securities in the Bank's investment portfolio; capacity to borrow from the FHLB system; and the capacity to borrow at the Federal Reserve discount window. The following table presents period-end and average balances from these four sources as of and for the six months ended June 30, 2012 and 2011. We believe these contingent liquidity sources exceed any contingent liquidity needs.

Contingent Liquidity Sources — Table 19

	June 30, 2012		June 30, 2011	
(Dollars in billions)	As of	Average for the Six Months Ended [1]	As of	Average for the Six Months Ended [1]
Excess reserves	$2.6	$1.9	$3.1	$3.0
Free and liquid investment portfolio securities	12.5	13.6	18.3	17.8
FHLB borrowing capacity	10.9	10.8	12.5	12.9
Discount window borrowing capacity	17.3	17.1	14.5	13.3
Total	$43.3	$43.4	$48.4	$47.0

[1]Average based upon month-end data, except excess reserves, which is based upon a daily average.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital service. The Bank and the Parent Company borrow in the money markets using instruments such as Fed funds, Eurodollars, and CP. As of June 30, 2012, the Parent Company had no CP outstanding and the Bank retained a material cash position in the form of excess reserves in its Federal Reserve account. In the absence of robust loan demand, we have chosen to deploy some of this excess liquidity to retire certain high-cost debt securities or other borrowings. During the second quarter, we used cash on hand to retire approximately $2 billion of senior debt at the Bank and Parent Company, including our last note issued under the FDIC's Temporary Liquidity Guarantee Program. The Parent Company retains a material cash position, in accordance with Company policies and risk limits discussed in greater detail below.

Additional contingent uses of funds may arise from events such as financial market disruptions or credit rating downgrades. Factors that affect our credit ratings include, but are not limited to, the credit risk profile of our assets, the adequacy of our ALLL, the level and stability of our earnings, the liquidity profile of both the Bank and the Parent Company, the economic environment, and the adequacy of our capital base. As of June 30, 2012, Moody’s, S&P, Fitch, and DBRS all maintained a “Stable” outlook on our credit ratings. Future credit rating downgrades are possible, although not currently anticipated given the “Stable” credit rating outlooks.

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Debt Credit Ratings and Outlook — Table 20

	As of June 30, 2012			
	Moody's	S&P	Fitch	DBRS
SunTrust Banks, Inc.				
Short-term	P-2	A-2	F2	R-1 (low)
Senior long-term	Baa1	BBB	BBB+	A (low)
SunTrust Bank				
Short-term	P-2	A-2	F2	R-1 (low)
Senior long-term	A3	BBB+	BBB+	A
Outlook	Stable	Stable	Stable	Stable

Sources of Funds. Our primary source of funds is a large, stable retail deposit base. Core deposits, predominantly made up of consumer and commercial deposits, originate primarily from our retail branch network and are our largest, most cost-effective source of funding. Core deposits increased to $126.1 billion as of June 30, 2012, from $125.6 billion as of December 31, 2011.

We also maintain access to a diversified collection of both secured and unsecured wholesale funding sources. These uncommitted sources include Fed funds purchased from other banks, securities sold under agreements to repurchase, negotiable CDs, offshore deposits, FHLB advances, Global Bank Notes, and CP. Aggregate wholesale funding increased to $19.1 billion as of June 30, 2012, from $17.5 billion as of December 31, 2011. During the three months ended June 30, 2012, we employed $3.0 billion of long-term FHLB advances as part of an interest rate risk management strategy, accounting for nearly all of a net $3.5 billion increase in FHLB advances during the quarter. Net short-term unsecured borrowings, which includes wholesale domestic and foreign deposits, as well as Fed funds purchased, was $4.7 billion as of June 30, 2012, down from $5.1 billion as of December 31, 2011.

As mentioned above, the Bank and Parent Company maintain programs to access the debt capital markets. The Parent Company maintains an SEC shelf registration statement from which it may issue senior or subordinated notes and various capital securities such as common or preferred stock. Our Board has authorized the issuance of up to $5 billion of such securities, of which approximately $2.2 billion of issuance capacity remains available. The most recent issuance from this shelf occurred on November 1, 2011, when we issued $750 million of 3.50% senior Parent Company notes due January 20, 2017. The Bank also maintains a Global Bank Note program under which it may issue senior or subordinated debt with various terms. As of June 30, 2012, the Bank had $36.3 billion of remaining capacity to issue notes under the program. Our issuance capacity under these programs refers to authorization granted by our Board, or formal program capacity, and does not refer to a commitment to purchase by any investor. Debt and equity securities issued under these programs are designed to appeal primarily to domestic and international institutional investors. Institutional investor demand for these securities is dependent upon numerous factors, including but not limited to our credit ratings and investor perception of financial market conditions and the health of the banking sector.

Parent Company Liquidity. Our primary measure of Parent Company liquidity is the length of time the Parent Company can meet its existing and certain forecasted obligations using its present balance of cash and liquid securities without the support of dividends from the Bank or new debt issuance. As of June 30, 2012, this measure was well in excess of the current limit, which, along with a number of other measures, is reviewed regularly with the Risk Committee of the Board. In accordance with risk limits established by ALCO and the Board, we manage the Parent Company's liquidity by structuring its maturity schedule to minimize the amount of debt maturing within a short period of time. During the three months ended June 30, 2012, we had $576 million of Parent Company debt that matured, and approximately $437 million of Parent Company debt is scheduled to mature later in 2012. Additionally, during the second quarter we gave notice to redeem approximately $1.2 billion of trust preferred securities that will not receive Tier 1 Capital credit under new regulatory capital rules; the Parent Company used cash on hand to redeem these securities. A majority of the Parent Company's remaining liabilities are long-term in nature, coming from the proceeds of our capital securities and long-term senior and subordinated notes.

The primary uses of Parent Company liquidity include debt service, dividends on capital instruments, the periodic purchase of investment securities, and loans to our subsidiaries. We fund corporate dividends primarily with dividends

from our banking subsidiary. We are subject to both state and federal banking regulations that limit our ability to pay common stock dividends in certain circumstances.

Recent Developments. Numerous legislative and regulatory proposals currently outstanding may have an effect on our liquidity if they become effective, the potential impact of which cannot be presently quantified. However, we believe that we will be well positioned to comply with new standards as they become effective as a result of our strong core banking franchise and prudent liquidity management practices.

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On December 20, 2011, the Federal Reserve published proposed measures to strengthen regulation and supervision of large bank holding companies and systemically important nonbank financial firms, pursuant to sections 165 and 166 of the Dodd-Frank Act. These proposed regulations include a number of requirements related to liquidity that would be instituted in phases. The first phase encompasses largely qualitative liquidity risk management practices, including internal liquidity stress testing. The second phase would include certain quantitative liquidity requirements related to the proposed Basel III liquidity standards. We believe that the Company is well positioned to demonstrate compliance with these new requirements and standards if and when they are adopted.

Other Liquidity Considerations. As presented in Table 21, we had an aggregate potential obligation of $63.0 billion to our clients in unused lines of credit at June 30, 2012. Commitments to extend credit are arrangements to lend to clients who have complied with predetermined contractual obligations. We also had $4.8 billion in letters of credit as of June 30, 2012, most of which are standby letters of credit, which require that we provide funding if certain future events occur. Approximately $2.6 billion of these letters supported variable rate demand obligations as of June 30, 2012.

Unfunded Lending Commitments		Table 21
(Dollars in millions)	June 30, 2012	December 31, 2011
Unused lines of credit:		
Commercial	$36,456	$35,685
Mortgage commitments [1]	9,075	7,833
Home equity lines	12,227	12,730
Commercial real estate	1,480	1,465
CP conduit	—	765
Credit card	3,811	3,526
Total unused lines of credit	$63,049	$62,004
Letters of credit:		
Financial standby	$4,718	$5,081
Performance standby	52	70
Commercial	45	55
Total letters of credit	$4,815	$5,206

[1]Includes IRLC contracts with notional balances of $6.4 billion and $4.9 billion as of June 30, 2012 and December 31, 2011, respectively.

Other Market Risk

Except as discussed below, there have been no other significant changes to other market risk as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

MSRs, which are carried at fair value, totaled $865 million and $921 million as of June 30, 2012 and December 31, 2011, respectively, are managed within established risk limits and are monitored as part of various governance processes. We recorded decreases of $282 million and $214 million in the fair value of our MSRs for the three and six months ended June 30, 2012, respectively, and decreases of $162 million and $145 million in the fair value of our MSRs for the three and six months ended June 30, 2011. Increases or decreases in fair value include the decay resulting from the realization of expected monthly net servicing cash flows. We originated MSRs with fair values at the time of origination of $78 million and $161 million for the three and six months ended June 30, 2012, respectively, and $47 million and $136 million for the three and six months ended June 30, 2011.

For the three and six months ended June 30, 2012, we recorded losses related to MSRs of $11 million and $17 million (including decay of $54 million and $112 million), respectively, inclusive of the mark-to-market adjustments on the related hedges. For the three and six months ended June 30, 2011, we recorded losses related to MSRs of $29 million and $54 million (including decay of $41 million and $94 million), respectively, inclusive of the mark-to-market adjustments on the related hedges.

We continue to monitor our holdings of foreign debt, securities, and commitments to lend to foreign countries and corporations, both funded and unfunded. Specifically, the risk is higher for exposure to countries that are experiencing significant economic, fiscal, and/or political strains. At June 30, 2012, we identified five countries in Europe that we believe are experiencing strains such that the likelihood of default is higher than would be anticipated if current economic, fiscal, and political strains were not present. The countries we identified were Greece, Ireland, Italy, Portugal, and Spain, and were chosen based on the economic situation experienced in these countries during 2011, the first six months of 2012, and continuing to exist as of June 30, 2012. At June 30, 2012, we had no direct exposure to sovereign debt of these countries. However, at June 30, 2012, we had direct exposure

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to corporations and individuals in these countries of $61 million that comprised of unfunded commitments to lend, funded loans, and a nominal amount of letters of credit. Indirect exposure to these countries was $39 million at June 30, 2012 and consisted primarily of double default risk exposure. The majority of the exposure is the notional amount of letters of credit issued on behalf of our role as an agent bank under the terms of a syndicated corporate loan agreement, wherein other participant banks in the syndicate are located in the identified higher risk countries. Overall, gross exposure to these countries continues to be less than 1% of our total assets as of June 30, 2012, consistent with our exposure at December 31, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

See discussion of off-balance sheet arrangements in Note 6, “Certain Transfers of Financial Assets and Variable Interest Entities,” and Note 11, “Reinsurance Arrangements and Guarantees,” to the Consolidated Financial Statements in this Form 10-Q.

CONTRACTUAL COMMITMENTS

In the normal course of business, we enter into certain contractual obligations, including obligations to make future payments on debt and lease arrangements, contractual commitments for capital expenditures, and service contracts. Except as noted within the “Borrowings" section of this MD&A, there have been no material changes in our Contractual Commitments as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

BUSINESS SEGMENTS

The following table presents net income/(loss) for our reportable business segments:

Net Income/(Loss) by Segment — Table 22

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2012	2011	2012	2011
Consumer Banking and Private Wealth Management	$105	$50	$170	$100
Wholesale Banking	188	86	342	181
Mortgage Banking	(120)	(147)	(254)	(315)
Corporate Other	82	116	186	242

The following table presents average loans and average deposits for our reportable business segments:

Average Loans and Deposits by Segment — Table 23

	Three Months Ended June 30			
	Average Loans		Average Consumer and Commercial Deposits	
(Dollars in millions)	2012	2011	2012	2011
Consumer Banking and Private Wealth Management	$41,391	$38,636	$77,340	$76,802
Wholesale Banking	51,129	47,467	44,997	42,250
Mortgage Banking	30,809	28,822	3,573	2,695
Corporate Other	36	(5)	(25)	132

	Six Months Ended June 30			
	Average Loans		Average Consumer and Commercial Deposits	
(Dollars in millions)	2012	2011	2012	2011
	$41,428	$38,745	$77,059	$76,369

Consumer Banking and Private Wealth Management				
Wholesale Banking	50,697	47,234	45,404	41,939
Mortgage Banking	30,803	29,067	3,386	2,838
Corporate Other	26	(6)	15	152

See Note 14, “Business Segment Reporting,” to the Consolidated Financial Statements in this Form 10-Q for discussion of our segment structure, basis of presentation, and internal management reporting methodologies.

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BUSINESS SEGMENT RESULTS

Six Months Ended June 30, 2012 vs. 2011

Consumer Banking and Private Wealth Management

Consumer Banking and Private Wealth Management reported net income of $170 million for the six months ended June 30, 2012, an increase of $70 million, or 70%, compared to the same period in 2011. The increase in net income was due to lower provision for credit losses, lower noninterest expense, and higher net interest income, partially offset by lower noninterest income.

Net interest income was $1.3 billion, an increase of $24 million, or 2%, compared to the same period in 2011. The increase was driven by higher average loan and deposit balances and one additional day in 2012, partially offset by the impact of lower loan and deposit spreads. Net interest income related to loans increased $19 million, or 4%, compared to the prior year driven by a $2.7 billion, or 7%, increase in average loan balances, partially offset by a decrease in loan spreads of 8 basis points. The increase in average loans was driven by higher production in indirect auto, student loans, and consumer direct, and the fourth quarter 2011 acquisitions of student loan portfolios, partially offset by decreases in home equity lines and residential mortgages.

Net interest income related to client deposits decreased $5 million, or 1%, compared to the same period in 2011 as deposit spreads decreased 4 basis points, partially offset by a $690 million, or 1%, increase in average deposit balances. Favorable deposit mix trends continued as low cost average deposits increased $3.0 billion, offsetting a $2.3 billion, or 13%, decline in average time deposits.

Provision for credit losses was $272 million, a decrease of $107 million, or 28%, compared to the same period in 2011. The decrease was driven by net charge-off declines of $68 million in home equity lines, $15 million in residential mortgage loans, $10 million in credit card, and $10 million in consumer indirect installment.

Total noninterest income was $662 million, a decrease of $69 million, or 9%, compared to the same period in 2011. Interchange revenue decreased $76 million versus the same period in 2011 driven by regulations on debit interchange fee income that became effective in the fourth quarter of 2011, partially offset by increases in retail investment income, service charges in deposit accounts, and other miscellaneous income.

Total noninterest expense was $1.4 billion, a decline of $46 million or 3% compared to the same period in 2011. The decrease was driven by a decrease in staff expense, credit-related expenses, and reduced rewards program expense.

Wholesale Banking

Wholesale Banking reported net income of $342 million for the six months ended June 30, 2012, an increase of $161 million, or 89%, compared to the same period in 2011. The increase in net income was attributable to decreases in provision for credit losses and noninterest expense combined with an increase in net interest income, partially offset by a decline in noninterest income.

Net interest income was $923 million, an $83 million, or 10%, increase compared to the same period in 2011, driven by higher average loan and deposit balances. Net interest income related to loans increased $38 million, or 8%, compared to the same period in 2011, as average loan balances increased $3.5 billion, or 7%. Increases in commercial and tax-exempt loans were partially offset by decreases in commercial real estate loans. Net interest income related to deposits increased $31million, or 8%, resulting from a $3.5 billion, or 8%, increase in deposit balances compared to the same period in 2011. Favorable trends in deposit mix continued as lower cost demand deposits increased $5.2 billion, or 28%, while interest bearing transaction accounts and money market accounts combined average balances

decreased $1.4 billion, or 7%, due in part to client preference migrating to demand deposit products.

Provision for credit losses was $168 million, a decrease of $153 million, or 48%, compared to the prior year. The decrease was driven by lower net charge-offs in commercial real estate loans, commercial and tax-exempt loans, and residential mortgages.

Total noninterest income was $762 million, a decrease of $29 million, or 4%, compared to the prior year. The decrease was due to lower merchant banking income, investment banking income, and card fees (due to new regulations on debit card interchange fees that became effective at the beginning of the fourth quarter of 2011), partially offset by valuation gains on seed capital investments combined with increased trading revenue, loan commitment fees, and leasing gains.

Total noninterest expense was $1.0 billion, a decrease of $56 million, or 5%, compared to the prior year. Declines in litigation-related expenses, other real estate-related expenses, staff expense, and allocated corporate costs were partially offset by an increase in outside processing costs.

Mortgage Banking

Mortgage Banking reported a net loss of $254 million for the six months ended June 30, 2012, an improvement of $61 million, or 19%, compared to a net loss of $315 million for the same period in 2011. The improvement was driven by lower provision for credit losses and higher noninterest income, partially offset by higher noninterest expense.

Net interest income was $257 million, an increase of $25 million, or 11%, predominantly due to higher net interest income on loans and LHFS, reduced funding costs on lower MSR balances, partially offset by lower deposit income. Residential mortgage loans increased $2.3 billion, or 9%, resulting in an increase in net interest income of $13 million. Net interest income on LHFS increased $5 million due to a $641 million increase in average balances partially offset by lower spreads. Average MSRs declined $541 million resulting in increased net interest income of $11 million, or 55%. Total average deposits increased $548 million, or 19%, resulting in a decrease in net interest income of $4 million due predominantly to lower deposit spreads.

Provision for credit losses was $331 million, a decline of $45 million, or 12%, compared to the same period in 2011. The improvement was driven by a $39 million decline in residential mortgage net charge-offs. Net charge-offs included $35 million and $10 million of charge-offs related to the sale of nonperforming residential mortgage loans in 2012 and 2011, respectively.

Total noninterest income was $336 million, an increase of $180 million compared to the same period in 2011. The increase was predominantly driven by a $171 million increase in mortgage production income predominantly due to higher production volume, gain on sale margins and fee income, partially offset by a $161 million increase in mortgage repurchase provision. Loan originations were $15.9 billion for the six months ended June 30, 2012, compared to $10.4 billion for the prior year, an increase of $5.5 billion, or 52%. Mortgage servicing income of $151 million, was up $7 million, or 5%. Total loans serviced were $153.4 billion at June 30, 2012 compared with $162.9 billion at June 30, 2011, down 6%.

Total noninterest expense of $686 million, increased $160 million, or 30%, compared to the same period in 2011. Operating losses increased $69 million due to compliance-related costs, largely attributable to mortgage servicing and litigation expenses. Consulting expenses increased $36 million, predominantly due to costs associated with the Federal Reserve Consent Order and other business initiatives. Total allocated costs increased $33 million and staff expenses increased $26 million driven by costs associated with higher volumes.

Corporate Other

Corporate Other's net income for the six months ended June 30, 2012 was $186 million, a decrease of $56 million, or 23%, compared to the same period in 2011. The decrease was predominantly due to lower income as a result of maturing interest rate swaps utilized to manage interest rate risk and lower gains from the sale of AFS securities.

Net interest income was $222 million, a decrease of $21 million, or 9%, compared to the same period in 2011. The decrease was primarily due to lower income from the aforementioned interest swaps and was partially offset by lower cost of funds driven by a decrease in other assets. Total average assets decreased $0.8 billion, or 2%, predominantly due to reduction in the investment portfolio. Average long-term debt decreased by $1.3 billion, or 10%, compared to 2011, primarily due to the repayment of senior and subordinated debt. Average short-term borrowings increased $6.8 billion as our non-deposit funding profile began to reflect a more normalized asset growth and balance sheet environment.

Total noninterest income was $61 million, a decrease of $74 million, or 55%, compared to the same period in 2011. The decrease was due to a $64 million decrease in net gains on the sale of AFS securities and a $10 million decrease in mark-to-market valuation on our public debt and index linked CDs carried at fair value.

Total noninterest expenses increased $8 million compared to the same period in 2011. The increase was mainly due to the debt extinguishment charges in the second quarter of 2012 related to redemption of higher cost trust preferred securities in June and July.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk Management” in the MD&A of this Form 10-Q, which is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company conducted an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of June 30, 2012. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2012. However, the Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance, but can provide reasonable assurance, that the objectives of the controls system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in internal control over financial reporting

There have been no changes to the Company’s internal control over financial reporting that occurred during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the normal course of its business activities, some of which involve claims for substantial amounts. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Company’s consolidated results of operations, cash flows, or financial condition. For additional information, see Note 13, “Contingencies,” to the Consolidated Financial Statements in this Form 10-Q, which is incorporated into this Item 1 by reference.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) SunTrust did not repurchase any shares of its common stock, Series A Preferred Stock Depositary Shares, Series B Preferred Stock Depositary Shares, or warrants to purchase common stock during the quarter ended June 30, 2012. At June 30, 2012, the Company had authority from its Board to repurchase all of the 13.9 million outstanding stock purchase warrants (although any such repurchase would be subject to the prior approval of the Federal Reserve), and

there was no unused Board authority to repurchase any shares of common stock, Series A Preferred Stock Depositary Shares, or the Series B Preferred Stock Depositary Shares.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit	Description	Sequential Page Number
3.1	Amended and Restated Articles of Incorporation of the Registrant, restated effective January 16, 2009, incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed January 22, 2009.	*
3.2	Bylaws of the Registrant, as amended and restated on August 8, 2011, incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2011.	*
10.1	Form of 2012 Non-Qualified Stock Option Award Agreement (2-year cliff vested) under the SunTrust Banks, Inc. 2009 Stock Plan.	(filed herewith)
31.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
31.2	Certification of Chief Financial Officer and Corporate Executive Vice President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.1	Certification of Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
32.2	Certification of Chief Financial Officer and Corporate Executive Vice President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	(filed herewith)
101.1	Interactive Data File.	(filed herewith)

* incorporated by reference

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SunTrust Banks, Inc.
(Registrant)

/s/ Thomas E. Panther
Thomas E. Panther, Senior Vice President and Director of Corporate Finance and Controller (on behalf of the Registrant and as Principal Accounting Officer)

Date: August 1, 2012.

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