SUNTRUST BANKS INC
Form 10-Q
November 07, 2014

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-08918

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
At October 31, 2014, 521,456,462 shares of the Registrant’s Common Stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| GLOSSARY OF DEFINED TERMS | | i - iii |
| PART I FINANCIAL INFORMATION | | 1 |
| Item 1: | Financial Statements (Unaudited). | 2 |
| | Consolidated Statements of Income. | 2 |
| | Consolidated Statements of Comprehensive Income. | 3 |
| | Consolidated Balance Sheets. | 4 |
| | Consolidated Statements of Shareholders' Equity. | 5 |
| | Consolidated Statements of Cash Flows. | 6 |
| | Notes to Consolidated Financial Statements (Unaudited). | 7 |
| Item 2: | Management's Discussion and Analysis of Financial Condition and Results of Operations. | 78 |
| Item 3: | Quantitative and Qualitative Disclosures About Market Risk. | 124 |
| Item 4: | Controls and Procedures. | 124 |
| PART II OTHER INFORMATION | | |
| Item 1: | Legal Proceedings. | 124 |
| Item 1A: | Risk Factors. | 124 |
| Item 2: | Unregistered Sale of Equity Securities and Use of Proceeds. | 125 |
| Item 3: | Default Upon Senior Securities. | 126 |
| Item 4: | Mine Safety Disclosures. | 126 |
| Item 5: | Other Information. | 126 |
| Item 6: | Exhibits. | 126 |
| SIGNATURE. | | 127 |

GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
AIP — Annual Incentive Plan.
ALCO — Asset/Liability Management Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ASU — Accounting standards update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — The third Basel Accord developed by the BCBS to strengthen existing regulatory capital requirements.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
bps — Basis points.
BRC — Board Risk Committee.
CCAR — Comprehensive Capital Analysis and Review.
CDO — Collateralized debt obligation.
CD — Certificate of deposit.
CDR — Conditional default rate.
CDS — Credit default swaps.
CET 1 — Common Equity Tier 1 Capital.
CEO — Chief Executive Officer.
CFO — Chief Financial Officer.
CIB — Corporate and Investment Banking.
C&I — Commercial and Industrial.
Class A shares — Visa Inc. Class A common stock.
Class B shares —Visa Inc. Class B common stock.
CLO — Collateralized loan obligation.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPR — Conditional prepayment rate.
CRE — Commercial real estate.
CSA — Credit support annex.
DDA — Demand deposit account.
Dodd-Frank Act — The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DOJ — Department of Justice.
DTA — Deferred tax asset.
EPS — Earnings per share.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.

Fannie Mae — The Federal National Mortgage Association.
Freddie Mac — The Federal Home Loan Mortgage Corporation.
FASB — Financial Accounting Standards Board.
FDIC — The Federal Deposit Insurance Corporation.
Federal Reserve — The Board of Governors of the Federal Reserve System.
Fed funds — Federal funds.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.
FICO — Fair Isaac Corporation.
Fitch — Fitch Ratings Ltd.
Form 8-K and other legacy mortgage-related items — Items disclosed in Form 8-K filed with the SEC on September 9, 2014, July 3, 2014, or October 10, 2013, and other legacy mortgage-related items.
FRB — Federal Reserve Board.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GenSpring — GenSpring Family Offices, LLC.
Ginnie Mae — The Government National Mortgage Association.
GSE — Government-sponsored enterprise.
HAMP — Home Affordable Modification Program.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFS — Loans held for sale.
LIBOR —London InterBank Offered Rate.
LOCOM – Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MBS — Mortgage-backed securities.
MD&A — Management’s Discussion and Analysis of Financial Condition and Results of Operations.
MI — Mortgage insurance.
Moody’s — Moody’s Investors Service.
MRA — Master Repurchase Agreement.
MRM — Market Risk Management.
MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NCF — National Commerce Financial Corporation.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.

OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
Parent Company — SunTrust Banks, Inc., the parent Company of SunTrust Bank and other subsidiaries of SunTrust Banks, Inc.
PD — Probability of default.
QSPE — Qualifying special-purpose entity.
REIT — Real estate investment trust.
RidgeWorth — RidgeWorth Capital Management, Inc.
ROA — Return on average total assets.
ROE — Return on average common shareholders’ equity.
ROTCE — Return on average tangible common shareholders' equity.
RSU — Restricted stock unit.
RWA — Risk-weighted assets.
S&P — Standard and Poor’s.
SBA — Small Business Administration.
SEC — U.S. Securities and Exchange Commission.
SERP — Supplemental Executive Retirement Plan.
SPE — Special purpose entity.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
SunTrust Community Capital — SunTrust Community Capital, LLC.
TDR — Troubled debt restructuring.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
UPB — Unpaid principal balance.
UTB — Unrecognized tax benefit.
VA —Veterans Administration.
VAR —Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa —The Visa, U.S.A. Inc. card association or its affiliates, collectively.
Visa Counterparty — A financial institution which purchased the Company's Visa Class B shares.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine months ended September 30, 2014, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)
SunTrust Banks, Inc.
Consolidated Statements of Income

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions and shares in thousands, except per share data) (Unaudited) | 2014 | 2013 | 2014 | 2013 |
| Interest Income | | | | |
| Interest and fees on loans | $1,152 | $1,148 | $3,464 | $3,474 |
| Interest and fees on loans held for sale | 30 | 30 | 61 | 90 |
| Interest and dividends on securities available for sale | 153 | 143 | 456 | 429 |
| Trading account interest and other | 18 | 18 | 55 | 52 |
| Total interest income | 1,353 | 1,339 | 4,036 | 4,045 |
| Interest Expense | | | | |
| Interest on deposits | 54 | 70 | 180 | 224 |
| Interest on long-term debt | 74 | 52 | 198 | 156 |
| Interest on other borrowings | 10 | 9 | 29 | 25 |
| Total interest expense | 138 | 131 | 407 | 405 |
| Net interest income | 1,215 | 1,208 | 3,629 | 3,640 |
| Provision for credit losses | 93 | 95 | 268 | 453 |
| Net interest income after provision for credit losses | 1,122 | 1,113 | 3,361 | 3,187 |
| Noninterest Income | | | | |
| Service charges on deposit accounts | 169 | 168 | 483 | 492 |
| Other charges and fees | 95 | 91 | 274 | 277 |
| Card fees | 81 | 77 | 239 | 231 |
| Trust and investment management income | 93 | 133 | 339 | 387 |
| Retail investment services | 76 | 68 | 224 | 198 |
| Investment banking income | 88 | 99 | 296 | 260 |
| Trading income | 46 | 33 | 141 | 124 |
| Mortgage servicing related income | 44 | 11 | 143 | 50 |
| Mortgage production related income/(loss) | 45 | (10) | 140 | 282 |
| Gain on sale of subsidiary | — | — | 105 | — |
| Net securities (losses)/gains [1] | (9) | — | (11) | 2 |
| Other noninterest income | 52 | 10 | 155 | 98 |
| Total noninterest income | 780 | 680 | 2,528 | 2,401 |
| Noninterest Expense | | | | |
| Employee compensation | 649 | 611 | 1,967 | 1,856 |
| Employee benefits | 81 | 71 | 326 | 322 |
| Outside processing and software | 184 | 190 | 535 | 555 |
| Operating losses | 29 | 350 | 268 | 461 |
| Net occupancy expense | 84 | 86 | 254 | 261 |
| Equipment expense | 41 | 45 | 127 | 136 |
| Regulatory assessments | 29 | 45 | 109 | 140 |
| Marketing and customer development | 35 | 34 | 91 | 95 |
| Credit and collection services | 21 | 139 | 67 | 224 |
| Amortization | 7 | 6 | 14 | 18 |
| Other noninterest expense [2] | 99 | 153 | 376 | 402 |
| Total noninterest expense | 1,259 | 1,730 | 4,134 | 4,470 |

| | | | | |
|---|---|---|---|---|
| Income before provision/(benefit) for income taxes | 643 | 63 | 1,755 | 1,118 |
| Provision/(benefit) for income taxes [2] | 67 | (133) | 364 | 184 |
| Net income including income attributable to noncontrolling interest | 576 | 196 | 1,391 | 934 |
| Net income attributable to noncontrolling interest | — | 7 | 11 | 16 |
| Net income | $576 | $189 | $1,380 | $918 |
| Net income available to common shareholders | $563 | $179 | $1,343 | $884 |
| Net income per average common share: | | | | |
| Diluted | $1.06 | $0.33 | $2.51 | $1.64 |
| Basic | 1.07 | 0.33 | 2.54 | 1.65 |
| Dividends declared per common share | 0.20 | 0.10 | 0.50 | 0.25 |
| Average common shares - diluted | 533,230 | 538,850 | 535,222 | 539,488 |
| Average common shares - basic | 527,402 | 533,829 | 529,429 | 534,887 |

[1] Total OTTI was $0 for the three and nine months ended September 30, 2014 and 2013. There were no OTTI gains/losses recognized in earnings or recognized as non-credit related OTTI in OCI for both the three months ended September 30, 2014 and 2013. Of total OTTI, losses of $1 million were recognized in earnings, and gains of $1 million were recognized as non-credit-related OTTI in OCI for both the nine months ended September 30, 2014 and 2013.

[2] Amortization expense related to qualified affordable housing investment costs is recognized in provision/(benefit) for income taxes for each of the periods presented as allowed by a recently adopted accounting standard. Prior to the first quarter of 2014, these amounts were recognized in other noninterest expense.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) (Unaudited) | 2014 | 2013 | 2014 | 2013 |
| Net income | $576 | $189 | $1,380 | $918 |
| Components of other comprehensive (loss)/income: | | | | |
| Change in net unrealized (losses)/gains on securities, net of tax of ($21), ($7), $144, and ($272), respectively | (37) | (11) | 246 | (466) |
| Change in net unrealized losses on derivatives, net of tax of ($48), ($15), ($98), and ($111), respectively | (82) | (26) | (168) | (189) |
| Change related to employee benefit plans, net of tax of $1, $3, $20, and $18, respectively | 1 | 4 | 34 | 30 |
| Total other comprehensive (loss)/income | (118) | (33) | 112 | (625) |
| Total comprehensive income | $458 | $156 | $1,492 | $293 |

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

| (Dollars in millions and shares in thousands, except per share data) (Unaudited) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $7,178 | $4,258 |
| Federal funds sold and securities borrowed or purchased under agreements to resell | 1,125 | 983 |
| Interest-bearing deposits in other banks | 22 | 22 |
| Cash and cash equivalents | 8,325 | 5,263 |
| Trading assets and derivatives | 5,782 | 5,040 |
| Securities available for sale | 26,162 | 22,542 |
| Loans held for sale [1] ($1,560 and $1,378 at fair value at September 30, 2014 and December 31, 2013, respectively) | 1,739 | 1,699 |
| Loans [2] ($284 and $302 at fair value at September 30, 2014 and December 31, 2013, respectively) | 132,151 | 127,877 |
| Allowance for loan and lease losses | (1,968) | (2,044) |
| Net loans | 130,183 | 125,833 |
| Premises and equipment | 1,504 | 1,565 |
| Goodwill | 6,337 | 6,369 |
| Other intangible assets (MSRs at fair value: $1,305 and $1,300 at September 30, 2014 and December 31, 2013, respectively) | 1,320 | 1,334 |
| Other real estate owned | 112 | 170 |
| Other assets | 5,354 | 5,520 |
| Total assets | $186,818 | $175,335 |
| Liabilities and Shareholders’ Equity | | |
| Noninterest-bearing deposits | $42,542 | $38,800 |
| Interest-bearing deposits (CDs at fair value: $87 and $764 at September 30, 2014 and December 31, 2013, respectively) | 93,965 | 90,959 |
| Total deposits | 136,507 | 129,759 |
| Funds purchased | 1,000 | 1,192 |
| Securities sold under agreements to repurchase | 2,089 | 1,759 |
| Other short-term borrowings | 7,283 | 5,788 |
| Long-term debt [3] ($1,293 and $1,556 at fair value at September 30, 2014 and December 31, 2013, respectively) | 12,942 | 10,700 |
| Trading liabilities and derivatives | 1,231 | 1,181 |
| Other liabilities | 3,497 | 3,534 |
| Total liabilities | 164,549 | 153,913 |
| Preferred stock, no par value | 725 | 725 |
| Common stock, $1.00 par value | 550 | 550 |
| Additional paid in capital | 9,090 | 9,115 |
| Retained earnings | 13,020 | 11,936 |
| Treasury stock, at cost, and other [4] | (939) | (615) |
| Accumulated other comprehensive loss, net of tax | (177) | (289) |
| Total shareholders’ equity | 22,269 | 21,422 |
| Total liabilities and shareholders’ equity | $186,818 | $175,335 |
| | | |
| Common shares outstanding [5] | 527,358 | 536,097 |
| Common shares authorized | 750,000 | 750,000 |

| | | |
|---|---|---|
| Preferred shares outstanding | 7 | 7 |
| Preferred shares authorized | 50,000 | 50,000 |
| Treasury shares of common stock | 22,563 | 13,824 |
| [1] Includes loans held for sale, at fair value, of consolidated VIEs | $— | $261 |
| [2] Includes loans of consolidated VIEs | 298 | 327 |
| [3] Includes debt of consolidated VIEs ($0 and $256 at fair value at September 30, 2014 and December 31, 2013, respectively) | 312 | 597 |
| [4] Includes noncontrolling interest | 103 | 119 |
| [5] Includes restricted shares | 2,993 | 3,984 |

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

| (Dollars and shares in millions, except per share data) (Unaudited) | Preferred Stock | Common Shares Outstanding | Common Stock | Additional Paid in Capital | Retained Earnings | Treasury Stock and Other [1] | Accumulated Other Comprehensive (Loss)/Income [2] | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $725 | 539 | $550 | $9,174 | $10,817 | ($590) | $309 | $20,985 |
| Net income | — | — | — | — | 918 | — | — | 918 |
| Other comprehensive loss | — | — | — | — | — | — | (625) | (625) |
| Change in noncontrolling interest | — | — | — | — | — | 2 | — | 2 |
| Common stock dividends, $0.25 per share | — | — | — | — | (134) | — | — | (134) |
| Preferred stock dividends [3] | — | — | — | — | (28) | — | — | (28) |
| Acquisition of treasury stock | — | (3) | — | — | — | (100) | — | (100) |
| Exercise of stock options and stock compensation expense | — | 1 | — | (24) | — | 40 | — | 16 |
| Restricted stock activity | — | 1 | — | (35) | — | 40 | — | 5 |
| Amortization of restricted stock compensation | — | — | — | — | — | 24 | — | 24 |
| Issuance of stock for employee benefit plans and other | — | — | — | 2 | — | 5 | — | 7 |
| Balance, September 30, 2013 | $725 | 538 | $550 | $9,117 | $11,573 | ($579) | ($316) | $21,070 |
| Balance, January 1, 2014 | $725 | 536 | $550 | $9,115 | $11,936 | ($615) | ($289) | $21,422 |
| Net income | — | — | — | — | 1,380 | — | — | 1,380 |
| Other comprehensive income | — | — | — | — | — | — | 112 | 112 |
| Common stock dividends, $0.50 per share | — | — | — | — | (266) | — | — | (266) |
| Preferred stock dividends [3] | — | — | — | — | (28) | — | — | (28) |
| Acquisition of treasury stock | — | (9) | — | — | — | (348) | — | (348) |
| Exercise of stock options and stock compensation expense | — | — | — | (14) | — | 15 | — | 1 |
| Restricted stock activity | — | — | — | 13 | (2) | 1 | — | 12 |
| Amortization of restricted stock compensation | — | — | — | — | — | 21 | — | 21 |
| Change in equity related to the sale of subsidiary | — | — | — | (23) | — | (16) | — | (39) |
| Issuance of stock for employee benefit plans and other | — | — | — | (1) | — | 3 | — | 2 |
| Balance, September 30, 2014 | $725 | 527 | $550 | $9,090 | $13,020 | ($939) | ($177) | $22,269 |

[1] At September 30, 2014, includes ($1,015) million for treasury stock, ($27) million for compensation element of restricted stock, and $103 million for noncontrolling interest.
At September 30, 2013, includes ($636) million for treasury stock, ($59) million for compensation element of restricted stock, and $116 million for noncontrolling interest.
[2] At September 30, 2014, includes $169 million in unrealized net gains on AFS securities, $111 million in unrealized net gains on derivative financial instruments, and ($457) million related to employee benefit plans.

At September 30, 2013, includes $54 million in unrealized net gains on AFS securities, $342 million in unrealized net gains on derivative financial instruments, and ($712) million related to employee benefit plans.

[3] For the nine months ended September 30, 2014, dividends were $3,044 per share for both Perpetual Preferred Stock Series A and B and $4,406 per share for Perpetual Preferred Stock Series E.

For the nine months ended September 30, 2013, dividends were $3,044 per share for both Perpetual Preferred Stock Series A and B and $4,325 per share for Perpetual Preferred Stock Series E.

See Notes to Consolidated Financial Statements (unaudited).

5

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

| (Dollars in millions) (Unaudited) | Nine Months Ended September 30 2014 | 2013 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income including income attributable to noncontrolling interest | $1,391 | $934 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of subsidiary | (105) | — |
| Depreciation, amortization, and accretion | 504 | 542 |
| Origination of mortgage servicing rights | (137) | (302) |
| Provisions for credit losses and foreclosed property | 286 | 495 |
| Mortgage repurchase provision | 12 | 102 |
| Stock-based compensation | 41 | 40 |
| Net securities losses/(gains) | 11 | (2) |
| Net gain on sale of loans held for sale, loans, and other assets | (239) | (169) |
| Net (increase)/decrease in loans held for sale | (139) | 1,200 |
| Net increase in other assets | (899) | (95) |
| Net decrease in other liabilities | (163) | (160) |
| Net cash provided by operating activities | 563 | 2,585 |
| Cash Flows from Investing Activities | | |
| Proceeds from maturities, calls, and paydowns of securities available for sale | 2,788 | 4,672 |
| Proceeds from sales of securities available for sale | 793 | 529 |
| Purchases of securities available for sale | (6,986) | (6,744) |
| Proceeds from sales of trading securities | 59 | — |
| Net increase in loans, including purchases of loans | (7,698) | (4,525) |
| Proceeds from sales of loans | 3,029 | 730 |
| Purchases of mortgage servicing rights | (109) | — |
| Capital expenditures | (96) | (104) |
| Payments related to acquisitions, including contingent consideration | (11) | (3) |
| Proceeds from sale of subsidiary | 193 | — |
| Proceeds from the sale of other real estate owned and other assets | 279 | 403 |
| Net cash used in investing activities | (7,759) | (5,042) |
| Cash Flows from Financing Activities | | |
| Net increase/(decrease) in total deposits | 6,748 | (3,433) |
| Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | 1,633 | 1,493 |
| Proceeds from long-term debt | 2,574 | 747 |
| Repayments of long-term debt | (67) | (77) |
| Repurchase of common stock | (348) | (100) |
| Common and preferred dividends paid | (294) | (162) |
| Incentive compensation related activity | 12 | 18 |
| Net cash provided by/(used in) financing activities | 10,258 | (1,514) |
| Net increase/(decrease) in cash and cash equivalents | 3,062 | (3,971) |
| Cash and cash equivalents at beginning of period | 5,263 | 8,257 |
| Cash and cash equivalents at end of period | $8,325 | $4,286 |
| | | |
| Supplemental Disclosures: | | |
| Loans transferred from loans held for sale to loans | $39 | $28 |
| Loans transferred from loans to loans held for sale | 3,183 | 200 |

| | | |
|---|---|---|
| Loans transferred from loans and loans held for sale to other real estate owned | 113 | 197 |
| Non-cash impact of the deconsolidation of CLO | 282 | — |

See Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

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

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

These financial statements should be read in conjunction with the Company’s 2013 Annual Report on Form 10-K. There have been no significant changes to the Company’s accounting policies as disclosed in the Company’s 2013 Annual Report on Form 10-K.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The ASU allows the use of the proportional amortization method for investments in qualified affordable housing projects if certain conditions are met. Under the proportional amortization method, the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received and the net investment performance is recognized in the income statement as a component of income tax expense. The ASU provides for a practical expedient, which allows for amortization of the investment in proportion to only the tax credits if it produces a measurement that is substantially similar to the measurement that would result from using both tax credits and other tax benefits. The ASU is effective for fiscal years and interim periods beginning after December 15, 2014. As early adoption is permitted, the Company adopted this ASU effective January 1, 2014, utilizing the practical expedient method. The standard is required to be applied retrospectively; therefore prior period amounts included in noninterest expense prior to adoption have been reclassified. During the three and nine months ended September 30, 2013, $13 million and $33 million, respectively, of investment amortization expense was included in other noninterest expense in the Consolidated Statements of Income which was reclassified to income tax expense upon adoption. There has been no other impact on the Company's financial position, results of operations, or EPS.

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU clarifies that a creditor is considered to have received physical possession, resulting from an in substance repossession or foreclosure, of residential real estate property collateralizing a consumer mortgage loan upon the occurrence of either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The ASU is effective for fiscal years and interim periods beginning after December 15, 2014. The adoption of this ASU is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The ASU changes the requirements for reporting discontinued operations. The ASU is effective for fiscal years and interim periods beginning after December 15, 2014. Early adoption is permitted only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. The Company will adopt the ASU at the beginning of 2015. The adoption is not expected to have an impact on the Company's financial position, results of operations, or EPS.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for fiscal years and interim periods beginning after December 15, 2016 and early adoption is not permitted. The Company is continuing to evaluate the impact of the ASU.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The ASU changes the accounting for repurchase-to-maturity transactions from sale to secured borrowing accounting. Also, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. Additional disclosures are required for all types of repurchase agreements. The ASU is effective for fiscal years and interim periods beginning after December 15, 2014 and early adoption is not permitted. Adoption of the ASU will not have a significant impact on the Company's financial position, results of operations, or EPS.

In June 2014, the FASB issued ASU 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period shall be treated as a performance condition. Under existing guidance in Topic 718, a performance target that falls under the scope of this amendment should not be reflected in estimating the grant-date fair value of the award; but rather compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The ASU is effective for fiscal years and interim periods beginning after December 15, 2015. Adoption of the ASU will not have a significant impact on the Company's financial position, results of operations, or EPS.

In August 2014, the FASB issued ASU 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force)." The ASU allows measurement of financial assets and financial liabilities of in-scope consolidated collateralized financing entities using either the measurement alternative included in the ASU or Topic 820 on fair value measurement. The measurement alternative in this ASU allows for measurement of both the financial assets and the financial liabilities of a consolidated collateralized financing entity using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The ASU is effective for fiscal years and interim periods beginning after December 15, 2015. Adoption of the ASU is not expected to impact the Company's financial position, results of operations, or EPS.

In August 2014, the FASB issued ASU 2014-14, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The ASU requires that a guaranteed mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the guaranteed amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The ASU is effective for fiscal years and interim periods beginning after December 15, 2014. The Company is already accounting for government guaranteed mortgage loans using this approach upon foreclosure; therefore, adoption of the ASU will not have an impact on the Company's financial position, results of operations, or EPS.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern." The ASU requires an evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. In the event there is substantial doubt, the ASU requires disclosure of the relevant facts and circumstances. The ASU is effective for fiscal years and interim periods ending after December 15, 2016. Adoption of the ASU will not have an impact on the Company's financial position, results of operations, or EPS.

On November 3, 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)." The ASU clarifies how current guidance should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of a host contract. The ASU is effective for fiscal years and interim periods beginning after December 15, 2015. The Company is currently evaluating the impact of the ASU.

NOTE 2 - ACQUISITIONS/DISPOSITIONS
(Dollars in millions)

| 2014 | Date | Cash Received | Goodwill | Other Intangibles | Gain |
|---|---|---|---|---|---|
| Sale of RidgeWorth | 5/30/2014 | $193 | ($40) | ($9) | $105 |

On May 30, 2014, the Company completed the sale of RidgeWorth, its asset management subsidiary with approximately $49.1 billion in assets under management, to an investor group led by a private equity fund managed by Lightyear Capital LLC. The Company received cash proceeds of $193 million, removed $96 million in net assets and $23 million in noncontrolling interests, and recognized a pre-tax gain of $105 million in connection with the sale, net of transaction-related expenses.
The Company’s results for the nine months ended September 30, 2014, included income before provision for income taxes related to RidgeWorth, excluding the gain on sale, of $22 million, comprised of $81 million of revenue and $59 million of expense.
The Company’s results for the nine months ended September 30, 2013, included income before provision for income taxes related to RidgeWorth of $49 million, comprised of $145 million of revenue and $96 million of expense.
For the year ended December 31, 2013, the Company’s income before provision for income taxes included $64 million related to RidgeWorth, comprised of $194 million of revenue and $130 million of expense. The financial results of RidgeWorth, including the gain on sale, are reflected in the Corporate Other segment.
There were no other material acquisitions or dispositions during the three and nine months ended September 30, 2014 and 2013.

NOTE 3 - FEDERAL FUNDS SOLD AND SECURITIES BORROWED OR PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

| (Dollars in millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Fed funds sold | $14 | $75 |
| Securities borrowed or purchased | 251 | 184 |
| Resell agreements | 860 | 724 |
| Total fed funds sold and securities borrowed or purchased under agreements to resell | $1,125 | $983 |

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which securities will be subsequently resold. Securities borrowed are primarily collateralized by corporate securities. The Company takes possession of all securities purchased under agreements to resell and securities borrowed and performs the appropriate margin evaluation on the acquisition date based on market volatility, as necessary. It is the Company's policy to obtain possession of collateral with a fair value between 95% to 110% of the principal amount loaned under resale and securities borrowing agreements. At September 30, 2014 and December 31, 2013, the total market value of collateral held was $1.1 billion and $913 million, of which $211 million and $234 million was repledged, respectively.

At September 30, 2014 and December 31, 2013, the Company had $1.0 billion and $731 million of trading assets pledged to secure $992 million and $717 million of repurchase agreements, respectively.

Netting of Securities - Repurchase and Resell Agreements
The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting

agreements or similar agreements are discussed in Note 12, "Derivative Financial Instruments." Securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by a MRA. Under the terms of the MRA, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed.

Notes to Consolidated Financial Statements (Unaudited), continued

Any payments, deliveries, or other transfers may be applied against each other and netted. These amounts are limited to the contract asset/liability balance, and accordingly, do not include excess collateral received/pledged.

The following table presents the Company's eligible securities borrowed or purchased under agreements to resell and securities sold under agreements to repurchase at September 30, 2014 and December 31, 2013:

| (Dollars in millions) | Gross Amount | Amount Offset | Net Amount Presented in Consolidated Balance Sheets | | Held/Pledged Financial Instruments | Net Amount |
|---|---|---|---|---|---|---|
| September 30, 2014 | | | | | | |
| Financial assets: | | | | | | |
| Securities borrowed or purchased under agreements to resell | $1,111 | $— | $1,111 | [1,2] | $1,103 | $8 |
| Financial liabilities: | | | | | | |
| Securities sold under agreements to repurchase | 2,089 | — | 2,089 | [1] | 2,089 | — |
| December 31, 2013 | | | | | | |
| Financial assets: | | | | | | |
| Securities borrowed or purchased under agreements to resell | $908 | $— | $908 | [1,2] | $899 | $9 |
| Financial liabilities: | | | | | | |
| Securities sold under agreements to repurchase | 1,759 | — | 1,759 | [1] | 1,759 | — |

[1] None of the Company's repurchase or reverse repurchase transactions met the right of setoff criteria for net balance sheet presentation at September 30, 2014 and December 31, 2013.
[2] Excludes $14 million and $75 million of Fed funds sold which are not subject to a master netting agreement at September 30, 2014 and December 31, 2013, respectively.

NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

| | September 30, 2014 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities | $1,007 | $6 | $2 | $1,011 |
| Federal agency securities | 986 | 15 | 31 | 970 |
| U.S. states and political subdivisions | 228 | 9 | — | 237 |
| MBS - agency | 22,508 | 501 | 198 | 22,811 |
| MBS - private | 129 | 3 | — | 132 |
| ABS | 19 | 2 | — | 21 |
| Corporate and other debt securities | 38 | 3 | — | 41 |
| Other equity securities [1] | 937 | 2 | — | 939 |
| Total securities AFS | $25,852 | $541 | $231 | $26,162 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| U.S. Treasury securities | $1,334 | $6 | $47 | $1,293 |
| Federal agency securities | 1,028 | 13 | 57 | 984 |

| | | | | |
|---|---|---|---|---|
| U.S. states and political subdivisions | 232 | 7 | 2 | 237 |
| MBS - agency | 18,915 | 421 | 425 | 18,911 |
| MBS - private | 155 | 1 | 2 | 154 |
| ABS | 78 | 2 | 1 | 79 |
| Corporate and other debt securities | 39 | 3 | — | 42 |
| Other equity securities [1] | 841 | 1 | — | 842 |
| Total securities AFS | $22,622 | $454 | $534 | $22,542 |

[1] At September 30, 2014, other equity securities comprised the following: $421 million in FHLB of Atlanta stock, $402 million in Federal Reserve Bank stock, $109 million in mutual fund investments, and $7 million of other. At December 31, 2013, other equity securities comprised the following: $336 million in FHLB of Atlanta stock, $402 million in Federal Reserve Bank stock, $103 million in mutual fund investments, and $1 million of other.

The following table presents interest and dividends on securities AFS:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Taxable interest | $142 | $132 | $421 | $397 |
| Tax-exempt interest | 2 | 3 | 8 | 8 |
| Dividends | 9 | 8 | 27 | 24 |
| Total interest and dividends | $153 | $143 | $456 | $429 |

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $7.8 billion and $11.0 billion at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, $370 million of securities AFS at fair value were pledged against repurchase arrangements under which the secured party has possession of the collateral and has the right to sell or repledge that collateral. At December 31, 2013, there were no securities AFS pledged under secured borrowing arrangements under which the secured party has possession of the collateral and would customarily sell or repledge that collateral, other than in an event of default by the Company.

The amortized cost and fair value of investments in debt securities at September 30, 2014, by estimated average life, are shown below. Actual cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

| | Distribution of Maturities | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | 1 Year or Less | 1-5 Years | 5-10 Years | After 10 Years | Total |
| Amortized Cost: | | | | | |
| U.S. Treasury securities | $— | $1,007 | $— | $— | $1,007 |
| Federal agency securities | 75 | 239 | 531 | 141 | 986 |
| U.S. states and political subdivisions | 60 | 44 | 101 | 23 | 228 |
| MBS - agency | 2,349 | 9,020 | 6,919 | 4,220 | 22,508 |
| MBS - private | 5 | 124 | — | — | 129 |
| ABS | 14 | 3 | 2 | — | 19 |
| Corporate and other debt securities | 5 | 33 | — | — | 38 |
| Total debt securities | $2,508 | $10,470 | $7,553 | $4,384 | $24,915 |
| Fair Value: | | | | | |
| U.S. Treasury securities | $— | $1,011 | $— | $— | $1,011 |
| Federal agency securities | 75 | 250 | 506 | 139 | 970 |
| U.S. states and political subdivisions | 60 | 47 | 105 | 25 | 237 |
| MBS - agency | 2,490 | 9,203 | 6,956 | 4,162 | 22,811 |
| MBS - private | 5 | 127 | — | — | 132 |
| ABS | 14 | 5 | 2 | — | 21 |
| Corporate and other debt securities | 5 | 36 | — | — | 41 |
| Total debt securities | $2,649 | $10,679 | $7,569 | $4,326 | $25,223 |
| Weighted average yield [1] | 2.47 % | 2.46 % | 2.89 % | 3.09 % | 2.70 % |

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

Securities in an Unrealized Loss Position

The Company held certain investment securities where amortized cost exceeded fair market value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market price of securities fluctuates. The Company reviewed its portfolio for OTTI in accordance with the accounting policies described in the Company's 2013 Annual Report on Form 10-K and, at September 30, 2014, the Company did not intend to sell these securities nor was it more-likely-than-not that the Company would be required to sell these securities before their anticipated recovery or maturity. At September 30, 2014, the Company had no OTTI for securities in an unrealized loss position.

| | September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less than twelve months | | Twelve months or longer | | Total | |
| (Dollars in millions) | Fair Value | Unrealized Losses [2] | Fair Value | Unrealized Losses [2] | Fair Value | Unrealized Losses [2] |
| Temporarily impaired securities: | | | | | | |
| U.S. Treasury securities | $385 | $2 | $— | $— | $385 | $2 |
| Federal agency securities | 8 | — | 615 | 31 | 623 | 31 |
| MBS - agency | 4,259 | 14 | 5,804 | 184 | 10,063 | 198 |
| ABS | — | — | 14 | — | 14 | — |
| Total temporarily impaired securities | $4,652 | $16 | $6,433 | $215 | $11,085 | $231 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than twelve months | | Twelve months or longer | | Total | |
| (Dollars in millions) | Fair Value | Unrealized Losses [2] | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Temporarily impaired securities: | | | | | | |
| U.S. Treasury securities | $1,036 | $47 | $— | $— | $1,036 | $47 |
| Federal agency securities | 398 | 29 | 264 | 28 | 662 | 57 |
| U.S. states and political subdivisions | 12 | — | 20 | 2 | 32 | 2 |
| MBS - agency | 9,173 | 358 | 618 | 67 | 9,791 | 425 |
| ABS | — | — | 13 | 1 | 13 | 1 |
| Total temporarily impaired securities | 10,619 | 434 | 915 | 98 | 11,534 | 532 |
| OTTI securities [1]: | | | | | | |
| MBS - private | 105 | 2 | — | — | 105 | 2 |
| Total OTTI securities | 105 | 2 | — | — | 105 | 2 |
| Total impaired securities | $10,724 | $436 | $915 | $98 | $11,639 | $534 |

[1] Includes OTTI securities for which credit losses have been recorded in earnings in current or prior periods.
[2] Securities with unrealized losses less than $0.5 million are shown as zero.

At September 30, 2014, unrealized losses on securities that have been in a temporarily impaired position for longer than twelve months included federal agency securities, agency MBS, and one ABS collateralized by 2004 vintage home equity loans. Unrealized losses on federal agency securities and agency MBS securities are due to an increase in market interest rates. The ABS continues to receive timely principal and interest payments, and is evaluated quarterly for credit impairment. Cash flow analysis shows that the underlying collateral can withstand highly stressed loss assumptions without incurring a credit loss.

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

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |

| | | | | |
|---|---|---|---|---|
| Gross realized gains | $3 | $— | $3 | $4 |
| Gross realized losses | (12) | — | (13) | (1) |
| OTTI losses recognized in earnings | — | — | (1) | (1) |
| Net securities (losses)/gains | ($9) | $— | ($11) | $2 |

Credit impairment that is determined through the use of models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include default rates, prepayment rates, and loss severities. If, based on this analysis, the security is in an unrealized loss position and the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities. During the nine months ended September 30, 2014, all OTTI recognized in earnings related to one private MBS collateralized by residential mortgage loans securitized in 2007.

Notes to Consolidated Financial Statements (Unaudited), continued

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

There was no credit impairment recognized on securities during the three months ended September 30, 2014 and 2013. The security that gave rise to credit impairments recognized during the nine months ended September 30, 2014 consisted of private MBS with a fair value of approximately $19 million at September 30, 2014. The securities that gave rise to credit impairments recognized during the nine months ended September 30, 2013 consisted of private MBS and ABS with a combined fair value of approximately $23 million at September 30, 2013. Credit impairments recognized on securities during the nine months ended September 30, 2014 and 2013, are shown below.

| | Nine Months Ended September 30 | |
|---|---|---|
| (Dollars in millions) | 2014 | 2013 |
| OTTI [1] | $— | $— |
| Portion of gains recognized in OCI (before taxes) | 1 | 1 |
| Net impairment losses recognized in earnings | $1 | $1 |

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

The following is a rollforward of credit losses recognized in earnings for the three and nine months ended September 30, 2014 and 2013, related to securities for which the Company does not intend to sell and it is not more-likely-than-not that the Company will be required to sell as of the end of each period presented. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value when there has been a decline in expected cash flows.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $25 | $32 | $25 | $31 |
| Additions: | | | | |
| OTTI credit losses on previously impaired securities | — | — | 1 | 1 |
| Reductions: | | | | |
| Increases in expected cash flows recognized over the remaining life of the securities | — | (1) | (1) | (1) |
| Balance, end of period | $25 | $31 | $25 | $31 |

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

| | 2014 [1] | 2013 |
|---|---|---|
| Default rate | 2% | 2 - 9% |
| Prepayment rate | 16% | 7 - 21% |
| Loss severity | 46% | 46 - 74% |

[1] During the nine months ended September 30, 2014, all OTTI recognized in earnings related to one private MBS security.

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

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 5 - LOANS

Composition of Loan Portfolio

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

| (Dollars in millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial loans: | | |
| C&I | $63,140 | $57,974 |
| CRE | 6,704 | 5,481 |
| Commercial construction | 1,250 | 855 |
| Total commercial loans | 71,094 | 64,310 |
| Residential loans: | | |
| Residential mortgages - guaranteed | 651 | 3,416 |
| Residential mortgages - nonguaranteed [1] | 23,718 | 24,412 |
| Home equity products | 14,389 | 14,809 |
| Residential construction | 464 | 553 |
| Total residential loans | 39,222 | 43,190 |
| Consumer loans: | | |
| Guaranteed student loans | 5,314 | 5,545 |
| Other direct | 4,110 | 2,829 |
| Indirect | 11,594 | 11,272 |
| Credit cards | 817 | 731 |
| Total consumer loans | 21,835 | 20,377 |
| LHFI | $132,151 | $127,877 |
| LHFS [2] | $1,739 | $1,699 |

[1] Includes $284 million and $302 million of loans carried at fair value at September 30, 2014 and December 31, 2013, respectively.

[2] Includes $1.6 billion and $1.4 billion of LHFS carried at fair value at September 30, 2014 and December 31, 2013, respectively.

At September 30, 2014 and December 31, 2013, the Company had $57.1 billion and $56.4 billion, respectively, of net eligible loan collateral pledged to the Federal Reserve Discount Window or the FHLB of Atlanta to support available borrowing capacity.

During the three months ended September 30, 2014 and 2013, the Company transferred $362 million and $56 million in LHFI to LHFS, and $19 million and $11 million in LHFS to LHFI, respectively. Additionally, during the three months ended September 30, 2014 and 2013, the Company sold $2.3 billion and $99 million in loans and leases for gains of $40 million and less than $1 million, respectively.

During the nine months ended September 30, 2014 and 2013, the Company transferred $3.2 billion and $200 million in LHFI to LHFS, and $39 million and $28 million in LHFS to LHFI, respectively. Additionally, during the nine months ended September 30, 2014 and 2013, the Company sold $3.0 billion and $761 million in loans and leases for gains of $71 million and $7 million, respectively.

Credit Quality Evaluation

The Company evaluates the credit quality of its loan portfolio by employing a dual internal risk rating system, which assigns both PD and LGD ratings to derive expected losses. Assignment of PD and LGD ratings are predicated upon numerous factors, including consumer credit risk scores, rating agency information, borrower/guarantor financial

capacity, LTV ratios, collateral type, debt service coverage ratios, collection experience, other internal metrics/analyses, and/or qualitative assessments.

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is an individual loan’s risk assessment expressed according to the broad regulatory agency classifications of Pass or Criticized. The Company's risk rating system is granular, with multiple risk ratings in both the Pass and Criticized categories. Pass ratings reflect relatively low PDs, whereas, Criticized assets have higher PDs. The granularity in Pass ratings assists in the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets Especially Mentioned (or Special Mention), Adversely Classified, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the

Criticized categories is between Accruing Criticized (which includes Special Mention and a portion of Adversely Classified) and Nonaccruing Criticized (which includes a portion of Adversely Classified and Doubtful and Loss). This distinction identifies those relatively higher risk loans for which there is a basis to believe that the Company will collect all amounts due from those where full collection is less certain.

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

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

For government-guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At September 30, 2014 and December 31, 2013, 30% and 82%, respectively, of the guaranteed residential loan portfolio was current with respect to payments. The decline in the percentage of current loans in LHFI is solely due to approximately $2.0 billion in accruing current guaranteed residential loans which were sold in the third quarter of 2014. At September 30, 2014 and December 31, 2013, 82% and 81%, respectively, of the guaranteed student loan portfolio was current with respect to payments. Loss exposure to the Company on these loans is mitigated by the government guarantee.

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

| | Commercial Loans | | | | | |
|---|---|---|---|---|---|---|
| | C&I | | CRE | | Commercial construction | |
| (Dollars in millions) | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Risk rating: | | | | | | |
| Pass | $61,748 | $56,443 | $6,513 | $5,245 | $1,220 | $798 |
| Criticized accruing | 1,214 | 1,335 | 159 | 197 | 21 | 45 |
| Criticized nonaccruing | 178 | 196 | 32 | 39 | 9 | 12 |
| Total | $63,140 | $57,974 | $6,704 | $5,481 | $1,250 | $855 |

| | Residential Loans [1] | | | | | |
|---|---|---|---|---|---|---|
| | Residential mortgages - nonguaranteed | | Home equity products | | Residential construction | |
| (Dollars in millions) | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Current FICO score range: | | | | | | |
| 700 and above | $18,828 | $19,100 | $11,495 | $11,661 | $366 | $423 |
| 620 - 699 | 3,501 | 3,652 | 2,049 | 2,186 | 75 | 90 |
| Below 620 [2] | 1,389 | 1,660 | 845 | 962 | 23 | 40 |
| Total | $23,718 | $24,412 | $14,389 | $14,809 | $464 | $553 |

| | Consumer Loans [3] | | | | | |
|---|---|---|---|---|---|---|
| | Other direct | | Indirect | | Credit cards | |
| (Dollars in millions) | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Current FICO score range: | | | | | | |
| 700 and above | $3,563 | $2,370 | $8,526 | $8,420 | $575 | $512 |
| 620 - 699 | 477 | 397 | 2,409 | 2,228 | 194 | 176 |
| Below 620 [2] | 70 | 62 | 659 | 624 | 48 | 43 |
| Total | $4,110 | $2,829 | $11,594 | $11,272 | $817 | $731 |

[1] Excludes $651 million and $3.4 billion at September 30, 2014 and December 31, 2013, respectively, of guaranteed residential loans. At September 30, 2014 and December 31, 2013, the majority of these loans had FICO scores of 700 and above.
[2] For substantially all loans with refreshed FICO scores below 620, the borrower's FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.
[3] Excludes $5.3 billion and $5.5 billion of guaranteed student loans at September 30, 2014 and December 31, 2013, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

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

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Accruing Current | Accruing 30-89 Days Past Due | Accruing 90+ Days Past Due | Nonaccruing [2] | Total |
| Commercial loans: | | | | | |
| C&I | $62,903 | $47 | $12 | $178 | $63,140 |
| CRE | 6,666 | 5 | 1 | 32 | 6,704 |
| Commercial construction | 1,238 | 3 | — | 9 | 1,250 |
| Total commercial loans | 70,807 | 55 | 13 | 219 | 71,094 |
| Residential loans: | | | | | |
| Residential mortgages - guaranteed | 197 | 34 | 420 | — | 651 |
| Residential mortgages - nonguaranteed[1] | 23,274 | 105 | 12 | 327 | 23,718 |
| Home equity products | 14,109 | 101 | 1 | 178 | 14,389 |
| Residential construction | 429 | 5 | — | 30 | 464 |
| Total residential loans | 38,009 | 245 | 433 | 535 | 39,222 |
| Consumer loans: | | | | | |
| Guaranteed student loans | 4,338 | 365 | 611 | — | 5,314 |
| Other direct | 4,078 | 25 | 2 | 5 | 4,110 |
| Indirect | 11,504 | 86 | 1 | 3 | 11,594 |
| Credit cards | 804 | 7 | 6 | — | 817 |
| Total consumer loans | 20,724 | 483 | 620 | 8 | 21,835 |
| Total LHFI | $129,540 | $783 | $1,066 | $762 | $132,151 |

[1] Includes $284 million of loans carried at fair value, the majority of which were accruing current.

[2] Nonaccruing loans past due 90 days or more totaled $468 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Accruing Current | Accruing 30-89 Days Past Due | Accruing 90+ Days Past Due | Nonaccruing [2] | Total |
| Commercial loans: | | | | | |
| C&I | $57,713 | $47 | $18 | $196 | $57,974 |
| CRE | 5,430 | 5 | 7 | 39 | 5,481 |
| Commercial construction | 842 | 1 | — | 12 | 855 |
| Total commercial loans | 63,985 | 53 | 25 | 247 | 64,310 |
| Residential loans: | | | | | |
| Residential mortgages - guaranteed | 2,787 | 58 | 571 | — | 3,416 |
| Residential mortgages - nonguaranteed[1] | 23,808 | 150 | 13 | 441 | 24,412 |
| Home equity products | 14,480 | 119 | — | 210 | 14,809 |
| Residential construction | 488 | 4 | — | 61 | 553 |
| Total residential loans | 41,563 | 331 | 584 | 712 | 43,190 |
| Consumer loans: | | | | | |
| Guaranteed student loans | 4,475 | 461 | 609 | — | 5,545 |
| Other direct | 2,803 | 18 | 3 | 5 | 2,829 |
| Indirect | 11,189 | 75 | 1 | 7 | 11,272 |

| | | | | | |
|---|---|---|---|---|---|
| Credit cards | 718 | 7 | 6 | — | 731 |
| Total consumer loans | 19,185 | 561 | 619 | 12 | 20,377 |
| Total LHFI | $124,733 | $945 | $1,228 | $971 | $127,877 |

[1] Includes $302 million of loans carried at fair value, the majority of which were accruing current.

[2] Nonaccruing loans past due 90 days or more totaled $653 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

Impaired Loans

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

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Unpaid Principal Balance | Amortized Cost[1] | Related Allowance | Unpaid Principal Balance | Amortized Cost[1] | Related Allowance |
| Impaired loans with no related allowance recorded: | | | | | | |
| Commercial loans: | | | | | | |
| C&I | $84 | $62 | $— | $81 | $56 | $— |
| CRE | 18 | 14 | — | 61 | 60 | — |
| Total commercial loans | 102 | 76 | — | 142 | 116 | — |
| Residential loans: | | | | | | |
| Residential mortgages - nonguaranteed | 676 | 447 | — | 672 | 425 | — |
| Residential construction | 41 | 12 | — | 68 | 17 | — |
| Total residential loans | 717 | 459 | — | 740 | 442 | — |
| Impaired loans with an allowance recorded: | | | | | | |
| Commercial loans: | | | | | | |
| C&I | 48 | 43 | 7 | 51 | 49 | 10 |
| CRE | 11 | 10 | 1 | 8 | 3 | — |
| Commercial construction | — | — | — | 6 | 3 | — |
| Total commercial loans | 59 | 53 | 8 | 65 | 55 | 10 |
| Residential loans: | | | | | | |
| Residential mortgages - nonguaranteed | 1,381 | 1,378 | 223 | 1,685 | 1,626 | 226 |
| Home equity products | 702 | 629 | 70 | 710 | 638 | 96 |
| Residential construction | 150 | 150 | 20 | 173 | 172 | 23 |
| Total residential loans | 2,233 | 2,157 | 313 | 2,568 | 2,436 | 345 |
| Consumer loans: | | | | | | |
| Other direct | 13 | 13 | — | 14 | 14 | — |
| Indirect | 100 | 100 | 5 | 83 | 83 | 5 |
| Credit cards | 10 | 10 | 2 | 13 | 13 | 3 |
| Total consumer loans | 123 | 123 | 7 | 110 | 110 | 8 |
| Total impaired loans | $3,234 | $2,868 | $328 | $3,625 | $3,159 | $363 |

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

Included in the impaired loan balances above were $2.5 billion and $2.7 billion of accruing TDRs at amortized cost, at September 30, 2014 and December 31, 2013, respectively, of which 97% and 96%, respectively, were current. See Note 1, “Significant Accounting Policies,” to the Company's 2013 Annual Report on Form 10-K for further information

regarding the Company’s loan impairment policy.

Notes to Consolidated Financial Statements (Unaudited), continued

| | Three Months Ended September 30 | | | | Nine Months Ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| (Dollars in millions) | Average Amortized Cost | Interest Income Recognized[1] | Average Amortized Cost | Interest Income Recognized[1] | Average Amortized Cost | Interest Income Recognized[1] | Average Amortized Cost | Interest Income Recognized[1] |
| Impaired loans with no related allowance recorded: | | | | | | | | |
| Commercial loans: | | | | | | | | |
| C&I | $65 | $— | $84 | $— | $68 | $1 | $58 | $1 |
| CRE | 15 | — | 5 | — | 16 | — | 6 | — |
| Commercial construction | — | — | 1 | — | — | — | 1 | — |
| Total commercial loans | 80 | — | 90 | — | 84 | 1 | 65 | 1 |
| Residential loans: | | | | | | | | |
| Residential mortgages - nonguaranteed | 454 | 5 | 420 | 4 | 467 | 14 | 434 | 13 |
| Residential construction | 14 | — | 18 | — | 15 | — | 22 | — |
| Total residential loans | 468 | 5 | 438 | 4 | 482 | 14 | 456 | 13 |
| Impaired loans with an allowance recorded: | | | | | | | | |
| Commercial loans: | | | | | | | | |
| C&I | 45 | — | 35 | — | 46 | 1 | 25 | 1 |
| CRE | 10 | — | 3 | — | 9 | — | 3 | — |
| Commercial construction | — | — | 4 | — | — | — | 2 | — |
| Total commercial loans | 55 | — | 42 | — | 55 | 1 | 30 | 1 |
| Residential loans: | | | | | | | | |
| Residential mortgages - nonguaranteed | 1,467 | 18 | 1,582 | 19 | 1,443 | 59 | 1,579 | 58 |
| Home equity products | 668 | 7 | 634 | 7 | 662 | 20 | 640 | 17 |
| Residential construction | 164 | 2 | 181 | 3 | 162 | 6 | 178 | 8 |
| Total residential loans | 2,299 | 27 | 2,397 | 29 | 2,267 | 85 | 2,397 | 83 |
| Consumer loans: | | | | | | | | |
| Other direct | 14 | — | 15 | — | 14 | — | 16 | — |
| Indirect | 116 | 1 | 84 | 1 | 110 | 4 | 87 | 3 |
| Credit cards | 10 | — | 15 | — | 11 | 1 | 17 | 1 |
| Total consumer loans | 140 | 1 | 114 | 1 | 135 | 5 | 120 | 4 |
| Total impaired loans | $3,042 | $33 | $3,081 | $34 | $3,023 | $106 | $3,068 | $102 |

[1] Of the interest income recognized during the three and nine months ended September 30, 2014, cash basis interest income was less than $1 million and $2 million, respectively.
Of the interest income recognized during the three and nine months ended September 30, 2013, cash basis interest income was $1 million and $6 million, respectively.

NPAs are shown in the following table:

| (Dollars in millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Nonaccrual/NPLs: | | |
| Commercial loans: | | |
| C&I | $178 | $196 |
| CRE | 32 | 39 |
| Commercial construction | 9 | 12 |
| Residential loans: | | |
| Residential mortgages - nonguaranteed | 327 | 441 |
| Home equity products | 178 | 210 |
| Residential construction | 30 | 61 |
| Consumer loans: | | |
| Other direct | 5 | 5 |
| Indirect | 3 | 7 |
| Total nonaccrual/NPLs[1] | 762 | 971 |
| OREO[2] | 112 | 170 |
| Other repossessed assets | 7 | 7 |
| Nonperforming LHFS | 53 | 17 |
| Total NPAs | $934 | $1,165 |

[1] Nonaccruing restructured loans are included in total nonaccrual/NPLs.
[2] 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 in the Consolidated Balance Sheets until the funds are received and the property is conveyed. The receivable amount related to proceeds due from the FHA or the VA totaled $50 million and $88 million at September 30, 2014 and December 31, 2013, respectively.

Restructured Loans

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

At September 30, 2014 and December 31, 2013, the Company had $6 million and $8 million, respectively, in commitments to lend additional funds to debtors whose terms have been modified in a TDR.

The number and amortized cost of loans modified under the terms of a TDR by type of modification are shown in the following tables:

| | Three Months Ended September 30, 2014 [1] | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Number of Loans Modified | Principal Forgiveness [2] | Rate Modification [3] | Term Extension and/or Other Concessions | Total |
| Commercial loans: | | | | | |
| C&I | 23 | $— | $— | $8 | $8 |
| Residential loans: | | | | | |
| Residential mortgages - nonguaranteed | 266 | — | 27 | 9 | 36 |
| Home equity products | 503 | — | 1 | 22 | 23 |
| Residential construction | 1 | — | — | — | — |
| Consumer loans: | | | | | |
| Other direct | 21 | — | — | — | — |
| Indirect | 638 | — | — | 12 | 12 |
| Credit cards | 123 | — | 1 | — | 1 |
| Total TDRs | 1,575 | $— | $29 | $51 | $80 |

| | Nine Months Ended September 30, 2014 [1] | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Number of Loans Modified | Principal Forgiveness [2] | Rate Modification [3] | Term Extension and/or Other Concessions | Total |
| Commercial loans: | | | | | |
| C&I | 66 | $— | $— | $22 | $22 |
| CRE | 4 | 3 | — | 3 | 6 |
| Residential loans: | | | | | |
| Residential mortgages - nonguaranteed | 944 | 1 | 113 | 37 | 151 |
| Home equity products | 1,407 | — | 6 | 59 | 65 |
| Residential construction | 11 | — | 1 | — | 1 |
| Consumer loans: | | | | | |
| Other direct | 59 | — | — | 1 | 1 |
| Indirect | 2,189 | — | — | 43 | 43 |
| Credit cards | 350 | — | 2 | — | 2 |
| Total TDRs | 5,030 | $4 | $122 | $165 | $291 |

[1] Includes loans modified under the terms of a TDR that were charged-off during the period.
[2] Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and nine months ended September 30, 2014 was immaterial.
[3] Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and nine months ended September 30, 2014.

20

Notes to Consolidated Financial Statements (Unaudited), continued

| | Three Months Ended September 30, 2013 [1] | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Number of Loans Modified | Principal Forgiveness [2] | Rate Modification [3] | Term Extension and/or Other Concessions | Total |
| Commercial loans: | | | | | |
| C&I | 28 | $— | $— | $39 | $39 |
| Commercial construction | 1 | — | — | — | — |
| Residential loans: | | | | | |
| Residential mortgages - nonguaranteed | 332 | — | 61 | 14 | 75 |
| Home equity products | 715 | — | 19 | 12 | 31 |
| Residential construction | 25 | — | 4 | — | 4 |
| Consumer loans: | | | | | |
| Other direct | 30 | — | — | 1 | 1 |
| Indirect | 883 | — | — | 18 | 18 |
| Credit cards | 97 | — | — | — | — |
| Total TDRs | 2,111 | $— | $84 | $84 | $168 |

| | Nine Months Ended September 30, 2013 [1] | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Number of Loans Modified | Principal Forgiveness [2] | Rate Modification [3] | Term Extension and/or Other Concessions | Total |
| Commercial loans: | | | | | |
| C&I | 124 | $18 | $2 | $89 | $109 |
| CRE | 5 | — | 4 | 1 | 5 |
| Commercial construction | 1 | — | — | — | — |
| Residential loans: | | | | | |
| Residential mortgages - nonguaranteed | 1,245 | — | 122 | 84 | 206 |
| Home equity products | 2,153 | — | 56 | 60 | 116 |
| Residential construction | 242 | — | 22 | 3 | 25 |
| Consumer loans: | | | | | |
| Other direct | 110 | — | — | 3 | 3 |
| Indirect | 2,617 | — | — | 50 | 50 |
| Credit cards | 483 | — | 2 | — | 2 |
| Total TDRs | 6,980 | $18 | $208 | $290 | $516 |

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

[2] Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. There were no charge-offs associated with principal forgiveness during the three months ended September 30, 2013. The total amount of charge-offs associated with principal forgiveness during the nine months ended September 30, 2013 was $2 million.

[3] Restructured loans which had a modification of the loan's contractual interest rate may also have had an extension of the loan's contractual maturity date and/or other concessions. The financial effect of modifying the interest rate on the loans modified as a TDR was immaterial to the financial statements during the three and nine months ended September 30, 2013.

Notes to Consolidated Financial Statements (Unaudited), continued

For the three and nine months ended September 30, 2014, the table below represents defaults on loans that were first modified between the periods January 1, 2013 and September 30, 2014 that became 90 days or more delinquent or were charged-off during the period.

| | Three Months Ended September 30, 2014 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| (Dollars in millions) | Number of Loans | Amortized Cost | Number of Loans | Amortized Cost |
| Commercial loans: | | | | |
| C&I | 30 | $3 | 77 | $8 |
| Residential loans: | | | | |
| Residential mortgages | 46 | 6 | 135 | 16 |
| Home equity products | 28 | 1 | 75 | 4 |
| Residential construction | — | — | 6 | — |
| Consumer loans: | | | | |
| Other direct | 3 | — | 8 | — |
| Indirect | 45 | — | 134 | 1 |
| Credit cards | 60 | — | 143 | 1 |
| Total TDRs | 212 | $10 | 578 | $30 |

For the three and nine months ended September 30, 2013, the table below represents defaults on loans that were first modified between the periods January 1, 2012 and September 30, 2013 that became 90 days or more delinquent or were charged-off during the period.

| | Three Months Ended September 30, 2013 | | Nine Months Ended September 30, 2013 | |
|---|---|---|---|---|
| (Dollars in millions) | Number of Loans | Amortized Cost | Number of Loans | Amortized Cost |
| Commercial loans: | | | | |
| C&I | 3 | $— | 45 | $— |
| CRE | — | — | 4 | 3 |
| Commercial construction | — | — | 1 | — |
| Residential loans: | | | | |
| Residential mortgages | 63 | 9 | 219 | 19 |
| Home equity products | 37 | 2 | 138 | 8 |
| Residential construction | 26 | 1 | 42 | 2 |
| Consumer loans: | | | | |
| Other direct | 5 | — | 14 | — |
| Indirect | 55 | 1 | 143 | 2 |
| Credit cards | 53 | — | 132 | 1 |
| Total TDRs | 242 | $13 | 738 | $35 |

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

Notes to Consolidated Financial Statements (Unaudited), continued

Concentrations of Credit Risk

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the U.S. The Company engages in limited international banking activities. The Company's total cross-border outstanding loans were $1.3 billion and $956 million at September 30, 2014 and December 31, 2013, respectively.

The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by residential real estate. At September 30, 2014, the Company owned $39.2 billion in residential loans, representing 30% of total LHFI, and had $10.9 billion in commitments to extend credit on home equity lines and $3.4 billion in mortgage loan commitments. At December 31, 2013, the Company owned $43.2 billion in residential loans, representing 34% of total LHFI, and had $11.2 billion in commitments to extend credit on home equity lines and $2.7 billion in mortgage loan commitments. Of the residential loans owned at September 30, 2014 and December 31, 2013, 2% and 8%, respectively, were guaranteed by a federal agency or a GSE.

Included in the residential mortgage portfolio were $11.7 billion and $12.4 billion of mortgage loans at September 30, 2014 and December 31, 2013, respectively, that included terms such as an interest only feature, a high original LTV ratio, or a second lien position that may increase the Company's exposure to credit risk and result in a concentration of credit risk. Of these mortgage loans, $4.4 billion and $5.5 billion, respectively, were interest only loans, primarily with a ten year interest only period. Approximately $919 million and $1.1 billion of those interest only loans at September 30, 2014 and December 31, 2013, respectively, were loans with no MI and were either first liens with combined original LTV ratios in excess of 80% or were second liens. Additionally, the Company owned approximately $7.3 billion and $6.9 billion of amortizing loans with no MI at September 30, 2014 and December 31, 2013, respectively, comprised of first liens with combined original LTV ratios in excess of 80% and second liens. Despite changes in underwriting guidelines that have curtailed the origination of high LTV loans, the balances of such loans have increased due to lending to high credit quality clients.

NOTE 6 - ALLOWANCE FOR CREDIT LOSSES

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | $2,046 | $2,172 | $2,094 | $2,219 |
| Provision for loan losses | 93 | 92 | 275 | 448 |
| (Benefit)/provision for unfunded commitments | — | 3 | (7) | 5 |
| Loan charge-offs | (164) | (189) | (473) | (695) |
| Loan recoveries | 36 | 43 | 122 | 144 |
| Balance at end of period | $2,011 | $2,121 | $2,011 | $2,121 |
| | | | | |
| Components: | | | | |
| ALLL | | | $1,968 | $2,071 |
| Unfunded commitments reserve[1] | | | 43 | 50 |
| Allowance for credit losses | | | $2,011 | $2,121 |

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

Activity in the ALLL by loan segment for the three months ended September 30, 2014 and 2013 is presented in the tables below:

| | Three Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Commercial | Residential | Consumer | Total |
| Balance at beginning of period | $958 | $875 | $170 | $2,003 |
| Provision for loan losses | 25 | 34 | 34 | 93 |
| Loan charge-offs | (26) | (104) | (34) | (164) |
| Loan recoveries | 14 | 12 | 10 | 36 |
| Balance at end of period | $971 | $817 | $180 | $1,968 |

| | Three Months Ended September 30, 2013 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Commercial | Residential | Consumer | Total |
| Balance at beginning of period | $919 | $1,046 | $160 | $2,125 |
| Provision for loan losses | 77 | (6) | 21 | 92 |
| Loan charge-offs | (52) | (109) | (28) | (189) |
| Loan recoveries | 13 | 21 | 9 | 43 |
| Balance at end of period | $957 | $952 | $162 | $2,071 |

| | Nine Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Commercial | Residential | Consumer | Total |
| Balance at beginning of period | $946 | $930 | $168 | $2,044 |
| Provision for loan losses | 82 | 114 | 79 | 275 |
| Loan charge-offs | (97) | (279) | (97) | (473) |
| Loan recoveries | 40 | 52 | 30 | 122 |
| Balance at end of period | $971 | $817 | $180 | $1,968 |

| | Nine Months Ended September 30, 2013 | | | |
|---|---|---|---|---|
| (Dollars in millions) | Commercial | Residential | Consumer | Total |
| Balance at beginning of period | $902 | $1,131 | $141 | $2,174 |
| Provision for loan losses | 183 | 184 | 81 | 448 |
| Loan charge-offs | (176) | (430) | (89) | (695) |
| Loan recoveries | 48 | 67 | 29 | 144 |
| Balance at end of period | $957 | $952 | $162 | $2,071 |

As discussed in Note 1, “Significant Accounting Policies,” to the Company's 2013 Annual Report on Form 10-K, the ALLL is composed of both specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for loans carried at fair value. Additionally, the Company records an immaterial allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss.

Notes to Consolidated Financial Statements (Unaudited), continued

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

| | September 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial | | Residential | | Consumer | | Total | |
| (Dollars in millions) | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL |
| Individually evaluated | $129 | $8 | $2,616 | $313 | $123 | $7 | $2,868 | $328 |
| Collectively evaluated | 70,965 | 963 | 36,322 | 504 | 21,712 | 173 | 128,999 | 1,640 |
| Total evaluated | 71,094 | 971 | 38,938 | 817 | 21,835 | 180 | 131,867 | 1,968 |
| LHFI at fair value | — | — | 284 | — | — | — | 284 | — |
| Total LHFI | $71,094 | $971 | $39,222 | $817 | $21,835 | $180 | $132,151 | $1,968 |

| | December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial | | Residential | | Consumer | | Total | |
| (Dollars in millions) | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL | Carrying Value | Associated ALLL |
| Individually evaluated | $171 | $10 | $2,878 | $345 | $110 | $8 | $3,159 | $363 |
| Collectively evaluated | 64,139 | 936 | 40,010 | 585 | 20,267 | 160 | 124,416 | 1,681 |
| Total evaluated | 64,310 | 946 | 42,888 | 930 | 20,377 | 168 | 127,575 | 2,044 |
| LHFI at fair value | — | — | 302 | — | — | — | 302 | — |
| Total LHFI | $64,310 | $946 | $43,190 | $930 | $20,377 | $168 | $127,877 | $2,044 |

## NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

Goodwill is required to be tested for impairment on an annual basis, which is performed by the Company as of September 30, 2014, or as events occur or circumstances change that (i) would more likely than not reduce the fair value of a reporting unit below its carrying amount, or (ii) indicate that it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. The fair value of a reporting unit is determined by using discounted cash flow analyses and, when applicable, guideline company information. The carrying value of a reporting unit is determined using an equity allocation methodology that allocates the total equity of the Company to each of its reporting units considering both regulatory risk-based capital and tangible assets relative to tangible equity. See Note 1, "Significant Accounting Policies" in the 2013 Annual Report on Form 10-K for further information regarding the Company's goodwill accounting policy. The Company performed a goodwill impairment analysis for all of its reporting units with goodwill balances at September 30, 2014 and determined that the fair values were in excess of the respective carrying values by the following percentages:

| | |
|---|---|
| Consumer Banking and Private Wealth Management | 68% |
| Wholesale Banking | 13% |

As discussed in Note 2, "Acquisitions/Dispositions," the Company completed the sale of its asset management subsidiary, RidgeWorth, during the second quarter of 2014. Also, during the nine months ended September 30, 2013, branch-managed business banking clients were transferred from Wholesale Banking to Consumer Banking and Private Wealth Management, resulting in the reallocation of $300 million in goodwill. The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30 are as follows:

| (Dollars in millions) | Consumer Banking and Private Wealth Management | Wholesale Banking | Total |
|---|---|---|---|
| Balance, January 1, 2014 | $4,262 | $2,107 | $6,369 |
| Acquisition of Lantana Oil and Gas Partners, Inc. | — | 8 | 8 |
| Sale of RidgeWorth | — | (40) | (40) |
| Balance, September 30, 2014 | $4,262 | $2,075 | $6,337 |
| Balance, January 1, 2013 | $3,962 | $2,407 | $6,369 |
| Intersegment transfers | 300 | (300) | — |
| Balance, September 30, 2013 | $4,262 | $2,107 | $6,369 |

Other Intangible Assets

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

| (Dollars in millions) | Core Deposit Intangibles | MSRs - Fair Value | Other | Total |
|---|---|---|---|---|
| Balance, January 1, 2014 | $4 | $1,300 | $30 | $1,334 |
| Amortization | (4) | — | (6) | (10) |
| MSRs originated | — | 137 | — | 137 |
| MSRs purchased | — | 109 | — | 109 |
| Changes in fair value: | | | | |
| Due to changes in inputs and assumptions [1] | — | (117) | — | (117) |
| Other changes in fair value [2] | — | (123) | — | (123) |
| Sale of MSRs | — | (1) | — | (1) |
| Sale of RidgeWorth | — | — | (9) | (9) |
| Balance, September 30, 2014 | $— | $1,305 | $15 | $1,320 |
| | | | | |
| Balance, January 1, 2013 | $17 | $899 | $40 | $956 |
| Amortization | (10) | — | (8) | (18) |
| MSRs originated | — | 302 | — | 302 |
| Changes in fair value: | | | | |
| Due to changes in inputs and assumptions [1] | — | 260 | — | 260 |
| Other changes in fair value [2] | — | (212) | — | (212) |
| Sale of MSRs | — | (1) | — | (1) |
| Balance, September 30, 2013 | $7 | $1,248 | $32 | $1,287 |

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

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

Mortgage Servicing Rights

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

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and nine months ended September 30, 2014 was $81 million and $241 million, respectively, and $79 million and $232 million for the three and nine months ended September 30, 2013, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At September 30, 2014 and December 31, 2013, the total UPB of mortgage loans serviced was $135.8 billion and $136.7 billion, respectively. Included in these amounts were $109.1 billion and $106.8 billion at September 30, 2014 and December 31, 2013, respectively, of loans serviced for third parties. During the nine months ended September 30, 2014 and 2013, the Company sold MSRs, at a price approximating their fair value, on residential loans with a UPB of $612 million and $2.1 billion, respectively. The Company purchased MSRs on residential loans with a UPB of $9.0 billion during the nine months ended September 30, 2014; however, only $3.0 billion of these loans are reflected in the UPB amounts above as the transfer of servicing for the remainder is scheduled for the fourth quarter of 2014. No MSRs were purchased during the nine months ended September 30, 2013.
The Company determines the fair value of the MSRs using a valuation model that calculates the present value of the estimated future net servicing income. The model incorporates a number of assumptions as MSRs do not trade in an active and open market with readily observable prices. The Company determines fair value using prepayment projections, spreads, and other assumptions that are compared to various sources of market data including independent third party valuations and industry surveys. Senior management and the STM Valuation Committee review all significant assumptions at least quarterly, since many factors can affect the fair value of MSRs. Changes to the valuation model inputs and assumptions are reflected in the periods' results.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSRs at September 30, 2014 and December 31, 2013, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those assumptions are shown in the table below.

| (Dollars in millions) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Fair value of retained MSRs | $1,305 | | $1,300 | |
| Prepayment rate assumption (annual) | 9 | % | 8 | % |
| Decline in fair value from 10% adverse change | $45 | | $38 | |
| Decline in fair value from 20% adverse change | 87 | | 74 | |
| Option adjusted spread/discount rate (annual) [1] | 10 | % | 12 | % |
| Decline in fair value from 10% adverse change | $64 | | $66 | |
| Decline in fair value from 20% adverse change | 123 | | 126 | |
| Weighted-average life (in years) | 7.1 | | 7.7 | |
| Weighted-average coupon | 4.2 | % | 4.4 | % |

[1] Option adjusted spread was a key assumption used to estimate the fair value of the Company's MSRs at September 30, 2014. For periods prior to September 30, 2014, a discount rate was used.
The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the sensitivities above do not include the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSRs. See Note 12, "Derivative Financial Instruments," for further information regarding these hedging activities.

NOTE 8 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES
Certain Transfers of Financial Assets and Related Variable Interest Entities
As discussed in Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K, the Company has transferred loans and securities in sale or securitization transactions in which the Company has, or had, continuing involvement. Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to

which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. Further, during the nine months ended September 30, 2014, the Company evaluated whether any of its previous conclusions regarding whether it is the primary beneficiary of the VIEs described below should be changed based upon events occurring during the period. These evaluations did not result in changes to previous consolidation conclusions, except for one CLO entity which is described in detail in the "Commercial and Corporate Loans" section of this footnote. No events occurred during the nine months ended September 30, 2014 that changed the Company’s sale accounting conclusion in regards to previously transferred residential mortgage loans, student loans, commercial and corporate loans, or CDO securities.



---

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

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement, which supplements Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K.

Residential Mortgage Loans

The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions whereby the loans are exchanged for cash or securities that are readily redeemable for cash proceeds and servicing rights. The Company sold residential mortgage loans to these entities, which resulted in a pre-tax net gain of $50 million and a pre-tax net loss of $169 million, including servicing rights, for the three months ended September 30, 2014 and 2013, respectively, and pre-tax net gains of $155 million and $112 million for the nine months ended September 30, 2014 and 2013, respectively. These net gains/losses are included within mortgage production related income/(loss) in the Consolidated Statements of Income. These net gains/losses include the change in value of the loans as a result of changes in interest rates from the time the related IRLCs were issued to the borrowers but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 12, “Derivative Financial Instruments,” for further discussion of the Company’s hedging activities. As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs, and those representations and warranties are discussed in Note 13, “Guarantees.”

In a limited number of securitizations, the Company has received securities representing retained interests in the transferred loans in addition to cash and servicing rights in exchange for the transferred loans. The received securities are carried at fair value as either trading assets or securities AFS. At September 30, 2014 and December 31, 2013, the fair value of securities received totaled $65 million and $71 million, respectively, and were valued using a third party pricing service.

The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization entity. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power over the entity. In almost all of its securitization transactions, the Company does not have power over the VIE as a result of these rights held by the master servicer. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests in the securitization. Total assets at September 30, 2014 and December 31, 2013, of the unconsolidated trusts in which the Company has a VI were $297 million and $350 million, respectively.

The Company’s maximum exposure to loss related to the unconsolidated VIEs in which it holds a VI is comprised of the loss of value of any interests it retains and any repurchase obligations it incurs as a result of a breach of representations and warranties, discussed further in Note 13, “Guarantees.”

Commercial and Corporate Loans

The Company has involvement with CLO entities that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the entities. The Company currently holds certain securities issued by these entities and previously acted as collateral manager for the CLOs; however, upon the sale of RidgeWorth in May 2014, the Company is no longer the collateral manager. The Company previously determined that it was the primary

beneficiary of, and thus, had consolidated one of these CLOs as it had both the power to direct the activities that most significantly impacted the entity’s economic performance and the obligation to absorb losses and the right to receive benefits from the entity that could potentially be significant to the CLO. The Company's involvement with this CLO includes ownership in one of the senior interests in the CLO and certain preference shares. Since the Company is no longer the collateral manager for the CLO, the Company no longer possesses the power to direct the activities that most significantly impact the economic performance of the VIE; therefore, the Company is no longer the primary beneficiary of this CLO and in connection with the sale of RidgeWorth, the CLO was deconsolidated.

Notes to Consolidated Financial Statements (Unaudited), continued

At December 31, 2013, the Company's Consolidated Balance Sheets reflected $261 million of loans held by the CLO and $256 million of debt issued by the CLO.

At September 30, 2014, all CLOs that the Company has involvement with are considered to be VIEs and are unconsolidated. The Company has determined that it is not the primary beneficiary of these entities as it does not possess the power to direct the activities that most significantly impact the economic performance of the VIEs. The Company's preference share exposure was valued at $5 million and $3 million at September 30, 2014 and December 31, 2013, respectively. The Company's senior interest exposure was valued at $19 million and $26 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, unconsolidated VIEs that the Company had involvement with had $742 million and $1.6 billion of estimated assets, respectively, and $693 million and $1.6 billion of estimated liabilities, respectively.

Student Loans

During 2006, the Company completed a securitization of government-guaranteed student loans through a transfer of loans to a securitization SPE, which previously qualified as a QSPE, and retained the related residual interest in the SPE. The Company concluded that this securitization of government-guaranteed student loans should be consolidated. At September 30, 2014 and December 31, 2013, the Company's Consolidated Balance Sheets reflected $315 million and $344 million, respectively, of assets held by the Student Loan entity and $312 million and $341 million, respectively, of debt issued by the Student Loan entity.

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

CDO Securities

The Company has transferred bank trust preferred securities to securitization entities, which have been determined to be VIEs. The Company concluded that it was not the primary beneficiary of any of these VIEs as the Company lacked the power to direct the significant activities of the entities. During the first quarter of 2014, the Company sold all of its remaining exposures to these VIEs. For further details on these entities refer to Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Cash flows on interests held [1]: | | | | |
| Residential Mortgage Loans [2] | $2 | $8 | $13 | $24 |
| Commercial and Corporate Loans | — | — | — | 1 |
| CDO Securities | — | — | 1 | 1 |
| Total cash flows on interests held | $2 | $8 | $14 | $26 |
| Servicing or management fees [1]: | | | | |

| | | | | |
|---|---|---|---|---|
| Residential Mortgage Loans [2] | $— | $1 | $1 | $2 |
| Commercial and Corporate Loans | — | 2 | 4 | 7 |
| Total servicing or management fees | $— | $3 | $5 | $9 |

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

[2] Does not include GSE mortgage loan transfers

The following table presents portfolio and delinquency balances for accruing loans 90 days or more past due and all nonaccrual loans at September 30, 2014 and December 31, 2013, as well as net charge-offs related to managed portfolio loans (including those that are owned or consolidated by the Company and those that have been transferred with servicing retained) for the three and nine months ended September 30, 2014 and 2013:

| | Portfolio Balance [1] | | Past Due and Nonaccrual [2] | | Net Charge-offs | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 | | | | |
| (Dollars in millions) | | | | | 2014 | 2013 | 2014 | 2013 |
| Type of loan: | | | | | | | | |
| Commercial | $71,094 | $64,310 | $232 | $272 | $12 | $39 | $57 | $128 |
| Residential | 39,222 | 43,190 | 968 | 1,296 | 92 | 88 | 227 | 363 |
| Consumer | 21,835 | 20,377 | 628 | 631 | 24 | 19 | 67 | 60 |
| Total loan portfolio | 132,151 | 127,877 | 1,828 | 2,199 | 128 | 146 | 351 | 551 |
| Managed securitized loans: | | | | | | | | |
| Commercial | — | 1,617 | — | 29 | — | — | — | — |
| Residential | 103,675 | 100,695 | 304 [3] | 493 [3] | 6 | 5 | 13 | 19 |
| Total managed loans | $235,826 | $230,189 | $2,132 | $2,721 | $134 | $151 | $364 | $570 |

[1] Excludes $1.7 billion of LHFS at both September 30, 2014 and December 31, 2013.
[2] Excludes $53 million and $17 million of past due LHFS at September 30, 2014 and December 31, 2013, respectively.
[3] Excludes loans that have completed the foreclosure or short sale process (i.e. involuntary prepayments).

Other Variable Interest Entities

In addition to the Company’s involvement with certain VIEs related to transfers of financial assets, the Company also has involvement with VIEs from other business activities.

Total Return Swaps

The Company has involvement with various VIEs related to its TRS business. At September 30, 2014 and December 31, 2013, the Company had $1.7 billion and $1.5 billion, respectively, in senior financing outstanding to VIEs, which was classified within trading assets and derivatives on the Consolidated Balance Sheets and carried at fair value. These VIEs had entered into TRS contracts with the Company with outstanding notional amounts of $1.7 billion and $1.5 billion at September 30, 2014 and December 31, 2013, respectively, and the Company had entered into mirror-image TRS contracts with third parties with the same outstanding notional amounts. At September 30, 2014, the fair values of these TRS assets and liabilities were $10 million and $7 million, respectively, and at December 31, 2013, the fair values of these TRS assets and liabilities were $35 million and $31 million, respectively, reflecting the pass-through nature of these structures. The notional amounts of the TRS contracts with the VIEs represent the Company’s maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with third parties. For additional information on the Company’s TRS with these VIEs, see Note 12, “Derivative Financial Instruments,” as well as Note 10, “Certain Transfers of Financial Assets and Variable Interest Entities,” to the Company's 2013 Annual Report on Form 10-K. There have been no changes to the Company's consolidation conclusions regarding the VIEs, as described in the Company's 2013 Annual Report on Form 10-K, since December 31, 2013.

Community Development Investments

As part of its community reinvestment initiatives, the Company invests primarily within its footprint in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or

a debt provider. The Company receives tax credits for various investments. The Company has determined that the large majority of the related partnerships are VIEs. For partnerships where the Company operates as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. At September 30, 2014 and December 31, 2013, total assets, which consist primarily of fixed assets and cash attributable to the consolidated entities, and total liabilities, were immaterial. While the obligations of the general partner are generally non-recourse to the Company, as the general partner, the Company may from time to time step in when needed to fund deficits. During the three and nine months ended September 30, 2014 and 2013, the Company did not provide any significant amount of funding as the general partner or to cover any deficits the partnerships may have generated.

For other partnerships, the Company invests in limited partner interests. The Company has determined that it is not the primary beneficiary of these partnerships and accounts for its interests in accordance with the accounting requirements for investments in affordable housing projects. The general partner or an affiliate of the general partner provides guarantees to the limited partner, which protects the Company from losses attributable to operating deficits, construction deficits, and tax credit allocation deficits. Assets of $1.5 billion in these partnerships were not included in the Consolidated Balance Sheets at both September 30, 2014 and December 31, 2013. The limited partner interests had carrying values of $300 million and $252 million at September 30, 2014 and December 31, 2013, respectively, and are recorded in other assets in the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these investments totaled $806 million and $697 million at September 30, 2014 and December 31, 2013, respectively. The Company's maximum exposure to loss would be borne by the loss of the equity investments along with $361 million and $303 million of loans, interest-rate swaps, or letters of credit issued by the Company to the entities at September 30, 2014 and December 31, 2013, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the entities upon the entities meeting certain conditions. If these conditions are met, the Company will invest these additional amounts in the entities.

As indicated in Note 1, "Significant Accounting Policies," the Company adopted ASU 2014-01 in the first quarter of 2014, which allowed amortization of qualified affordable housing investments within the scope of the ASU to be presented net of the income tax credits in the provision for income taxes. During the three months ended September 30, 2014 and 2013, the Company recognized $15 million and $16 million of tax credits, respectively, and $14 million and $13 million of amortization expense, respectively. During the nine months ended September 30, 2014 and 2013, the Company recognized $45 million of tax credits, and $41 million and $33 million of amortization expense, respectively, in the provision for income taxes. For community development investments not within the scope of ASU 2014-01, the Company continues to record amortization of the investment in noninterest expense.

Additionally, the Company owns noncontrolling interests in funds whose purpose is to invest in community developments. At September 30, 2014 and December 31, 2013, the Company's investment in these funds totaled $146 million and $138 million, respectively, and the Company's maximum exposure to loss on its equity investments, which is comprised of its investments in the funds plus any additional unfunded equity commitments, was $242 million and $217 million, respectively.

When the Company owns both the limited partner and general partner interests or acts as the indemnifying party, the Company consolidates the entities. At September 30, 2014 and December 31, 2013, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated non-VIE partnerships were $115 million and $151 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were $55 million and $58 million, respectively.

The Company has designated certain consolidated affordable housing properties as held for sale, and accordingly recognizes them at the lower of their carrying value or estimated fair value less costs to sell. See the "Non-recurring Fair Value Measurements," section of Note 14, "Fair Value Election and Measurement," for additional detail. At September 30, 2014, the carrying value of properties held for sale was $72 million. Disposition of these properties is expected to be completed within the next six months.

## NOTE 9 – NET INCOME PER COMMON SHARE

Equivalent shares of 15 million and 20 million related to common stock options and common stock warrants outstanding at September 30, 2014 and 2013, respectively, were excluded from the computations of diluted net income per average common share because they would have been anti-dilutive.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (In millions, except per share data) | 2014 | 2013 | 2014 | 2013 |
| Net income | $576 | $189 | $1,380 | $918 |
| Preferred dividends | (9) | (9) | (28) | (28) |
| Dividends and undistributed earnings allocated to unvested shares | (4) | (1) | (9) | (6) |
| Net income available to common shareholders | $563 | $179 | $1,343 | $884 |
| Average basic common shares | 527 | 534 | 529 | 535 |
| Effect of dilutive securities: | | | | |
| Stock options | 2 | 1 | 2 | 1 |
| Restricted stock and warrants | 4 | 4 | 4 | 3 |
| Average diluted common shares | 533 | 539 | 535 | 539 |
| Net income per average common share - diluted | $1.06 | $0.33 | $2.51 | $1.64 |
| Net income per average common share - basic | $1.07 | $0.33 | $2.54 | $1.65 |

## NOTE 10 - INCOME TAXES

The provision for income taxes was an expense of $67 million, which included a $130 million tax benefit related to the completion of a tax authority examination, and a benefit of $133 million for the three months ended September 30, 2014 and 2013, respectively. The effective tax rate for the three months ended September 30, 2014 was 10.4% and cannot be compared to the three months ended September 30, 2013 as the effective tax rate for that three-month period was not meaningful. The provision for income taxes was $364 million and $184 million for the nine months ended September 30, 2014 and 2013, respectively, representing effective tax rates of 20.9% and 16.7%, respectively. The Company calculated the provision for income taxes for the three and nine months ended September 30, 2014 and 2013, by applying the estimated annual effective tax rate to year-to-date pre-tax income and adjusting for discrete items that occurred during the period.

The Company adopted accounting guidance effective January 1, 2014, which allowed amortization expense related to qualified affordable housing investments to be presented net of the income tax credits in the provision for income taxes. Prior to the first quarter of 2014, these amortization expenses were recognized in other noninterest expense. The standard is required to be applied retrospectively; therefore, prior periods have been restated in accordance with U.S. GAAP. See Note 1, “Significant Accounting Policies,” for further information related to this new guidance.

The Company's liability for UTBs was $158 million and $291 million at September 30, 2014 and December 31, 2013, respectively. The decrease in the liability for UTBs was primarily due to the completion of a tax authority examination. It is reasonably possible that the liability for UTBs could decrease by as much as $50 million during the next 12 months due to the completion of tax authority examinations and expiration of statutes of limitations.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company sponsors various short-term incentive plans and LTI plans for eligible employees, which may be delivered through various incentive programs, such as RSUs, restricted stock, and LTI cash. AIP is the Company's short-term cash incentive plan for key employees that provides for potential annual cash awards based on the Company's performance and/or the achievement of business unit and individual performance objectives. Awards under the LTI cash plan generally cliff vest over a period of three years from the date of the award and are paid in cash. All incentive awards are subject to clawback provisions. Compensation expense for these incentive plans with cash payouts was $61 million and $30 million for the three months ended September 30, 2014 and 2013, respectively and $157 million and $108 million for the nine months ended September 30, 2014 and 2013.

Stock-Based Compensation

The Company provides stock-based awards through the 2009 Stock Plan under which the Compensation Committee of the Board of Directors has the authority to grant stock options, stock appreciation rights, restricted stock, and RSUs to key employees of the Company. Some awards may have performance or other conditions, such as vesting tied to the Company's total shareholder return relative to a peer group or vesting tied to the achievement of an absolute financial performance target.

In February 2014, the Compensation Committee and Board of Directors approved, subject to shareholder approval, an amendment to the 2009 Stock Plan to remove the sub-limit on shares available for grant that may be issued as restricted stock or RSUs. Following shareholder approval of the Plan amendment, which occurred on April 22, 2014, all of the 17 million remaining authorized shares previously under the Plan became available for grant as stock options, stock appreciation rights, restricted stock, or RSUs. Prior to the Plan amendment, only a portion of such shares were available to be granted as either restricted stock or RSUs. At September 30, 2014, approximately 17 million shares remained available for grant.

Shares or units of restricted stock may be granted to employees and directors. Generally, grants to employees either cliff vest after three years or vest pro rata annually over three years. Restricted stock grants may be subject to one or more criteria, including employment, performance, or other conditions as established by the Compensation Committee at the time of grant. Any shares of restricted stock that are forfeited will again become available for issuance under the Stock Plan. An employee or director has the right to vote the shares of restricted stock after grant unless and until they are forfeited. Compensation cost for restricted stock is equal to the fair market value of the shares on the grant date of the award and is amortized to compensation expense over the vesting period. Dividends are paid on awarded but unvested restricted stock. SunTrust does not pay dividends on unvested RSU awards but instead accrue and reinvest them in equivalent shares of SunTrust common stock and pay them only if the underlying RSU award vests. Generally, RSU awards are classified as equity.

Stock options were granted at an exercise price that was no less than the fair market value of a share of SunTrust common stock on the grant date and were either tax-qualified incentive stock options or non-qualified stock options. Stock options typically vest pro-rata over three years and generally have a maximum contractual life of ten years. Upon exercise, shares are generally issued from treasury stock. No stock options were granted during the nine months ended September 30, 2014, consistent with the Company's decision to discontinue the issuance of stock options in 2014. The weighted average fair value of options granted during the nine months of 2013 was $7.37 per share. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model based on the following assumptions for the nine months ended September 30, 2013:

| | | |
|---|---|---|
| Dividend yield | 1.28 | % |
| Expected stock price volatility | 30.98 | |
| Risk-free interest rate (weighted average) | 1.02 | |

| | |
|---|---|
| Expected life of options | 6 years |

33

Stock-based compensation expense recognized in noninterest expense for the three and nine months ended September 30, was as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Stock-based compensation expense: | | | | |
| Stock options | $— | $1 | $1 | $5 |
| Restricted stock | 7 | 9 | 21 | 24 |
| RSUs | 5 | 2 | 27 | 15 |
| Total stock-based compensation expense | $12 | $12 | $49 | $44 |

The recognized stock-based compensation tax benefit was $5 million for both the three months ended September 30, 2014 and 2013, and $19 million and $17 million for the nine months ended September 30, 2014 and 2013, respectively.

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans ("Retirement Benefit Plans") during the nine months ended September 30, 2014. The expected long-term rates of return on plan assets net of administrative fees for the Retirement Benefit Plans are 7.0% for the SunTrust Retirement Plan and 6.5% for the NCF Retirement Plan for 2014.

Anticipated employer contributions/benefit payments for 2014 are $7 million for the SERP. During the three and nine months ended September 30, 2014, the contributions/benefit payments were $2 million and $4 million, respectively. During the three and nine months ended September 30, 2013, the contributions/benefits payments were $3 million and $7 million, respectively.

SunTrust contributed less than $1 million to the Postretirement Welfare Plan during both the three and nine months ended September 30, 2014 and 2013. Additionally, SunTrust expects to receive a Medicare Part D Subsidy reimbursement for 2014 of less than $1 million. The expected pre-tax long-term rate of return on plan assets for the Postretirement Welfare Plan is 5.25% for 2014.

Notes to Consolidated Financial Statements (Unaudited), continued

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

| | Three Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (Dollars in millions) | Pension Benefits [1] | Other Postretirement Benefits | Pension Benefits [1] | Other Postretirement Benefits |
| Service cost | $2 | $— | $2 | $— |
| Interest cost/(credit) | 31 | (1) | 28 | 1 |
| Expected return on plan assets | (50) | (1) | (48) | (1) |
| Recognized net actuarial loss | 4 | — | 6 | — |
| Net periodic benefit | ($13) | ($2) | ($12) | $— |

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (Dollars in millions) | Pension Benefits [1] | Other Postretirement Benefits | Pension Benefits [1] | Other Postretirement Benefits |
| Service cost | $4 | $— | $4 | $— |
| Interest cost | 93 | 2 | 84 | 4 |
| Expected return on plan assets | (150) | (4) | (143) | (4) |
| Amortization of prior service credit | — | (4) | — | — |
| Recognized net actuarial loss | 12 | — | 19 | — |
| Net periodic benefit | ($41) | ($6) | ($36) | $— |

[1] Administrative fees are recognized in service cost for each of the periods presented.

NOTE 12 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into various derivative financial instruments, both in a dealer capacity to facilitate client transactions and as an end user as a risk management tool. ALCO monitors all derivative activities. When derivatives have been entered into with clients, the Company generally manages the risk associated with these derivatives within the framework of its VAR methodology that monitors total daily exposure and seeks to manage the exposure on an overall basis. Derivatives are also used as a risk management tool to hedge the Company’s balance sheet exposure to

changes in identified cash flow and fair value risks, either economically or in accordance with hedge accounting provisions. The Company's Corporate Treasury function is responsible for employing the various hedge accounting strategies to manage these objectives. Additionally, as a normal part of its operations, the Company enters into IRLCs on mortgage loans that are accounted for as freestanding derivatives and has certain contracts containing embedded derivatives that are carried, in their entirety, at fair value. All freestanding derivatives and any embedded derivatives that the Company bifurcates from the host contracts are carried at fair value in the Consolidated Balance Sheets in trading assets and derivatives and trading liabilities and derivatives. The associated gains and losses are either recognized in AOCI, net of tax, or within the Consolidated Statements of Income, depending upon the use and designation of the derivatives.

Credit and Market Risk Associated with Derivatives

Derivatives expose the Company to credit risk. The Company minimizes the credit risk of derivatives by entering into transactions with counterparties with defined exposure limits based on credit quality that are reviewed periodically by the Company's Credit Risk Management division. The Company's derivatives may also be governed by an ISDA or other master agreement, and depending on the nature of the derivative, bilateral collateral agreements are typically in place as well. In 2013, the Company became subject to OTC derivative clearing requirements as a registered swap dealer. As a result, certain derivatives are now required to be cleared through central clearing members in which the Company is required to post initial margin and, in addition, to further mitigate the risk of non-payment, variation margin is received or paid daily based on the net asset or liability position of the contracts. When the Company has more than one outstanding derivative transaction with a single counterparty and there exists a legal right of offset with that counterparty, the Company considers its exposure to the counterparty to be the net market

value of its derivative positions with that counterparty if an asset, adjusted for held collateral. At September 30, 2014, these net derivative asset positions were $855 million, representing the $1.2 billion of derivative net gains adjusted for cash and other collateral of $370 million that the Company held in relation to these gain positions. At December 31, 2013, net derivative asset positions were $1.0 billion, representing $1.5 billion of derivative net gains, adjusted for cash and other collateral of $523 million that the Company held in relation to these gain positions.
Derivatives also expose the Company to market risk. Market risk is the adverse effect that a change in market factors, such as interest rates, currency rates, equity prices, or implied volatility, has on the value of a derivative. The Company manages the market risk associated with its derivatives by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company continually measures this risk associated with its derivatives designated as trading instruments using a VAR methodology.
Derivative instruments are priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. For purposes of valuation adjustments to its derivative positions, the Company has evaluated liquidity premiums that may be demanded by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to recognize. Generally, the expected loss of each counterparty is estimated using the Company’s internal risk rating system. The risk rating system utilizes counterparty-specific PD and LGD estimates to derive the expected loss. Additionally, counterparty exposure is evaluated by offsetting positions that are subject to master netting arrangements, as well as by considering the amount of marketable collateral securing the position. All counterparties and defined exposure limits are explicitly approved. Counterparties are regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach is also used by the Company to estimate its own credit risk on derivative liability positions. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately $13 million and $16 million at September 30, 2014 and December 31, 2013, respectively.
Currently, the majority of the Company’s derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies, which are contained in industry standard master netting agreements, may be considered events of default. Should the Bank be in default under any of these provisions, the Bank’s counterparties would be permitted to close-out net at amounts, that would approximate the then-fair values of the derivatives, resulting in a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. Additionally, certain of the Company’s derivative liability positions, totaling $916 million and $941 million in fair value at September 30, 2014 and December 31, 2013, respectively, contain provisions conditioned on downgrades of the Bank’s credit rating. These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral. At September 30, 2014, the Bank carried senior long-term debt ratings of A3/BBB+ from three of the major ratings agencies. During October 2014 one of the agencies upgraded the Bank's senior long term rating to "A-." At September 30, 2014, ATEs have been triggered for approximately $6 million in fair value liabilities. For illustrative purposes, if the Bank were downgraded to BB+, ATEs would be triggered in derivative liability contracts that had a total fair value of $2 million at September 30, 2014; ATEs do not exist at lower ratings levels. At September 30, 2014, $910 million in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $869 million in collateral, primarily in the form of cash. If requested by the counterparty pursuant to the terms of the CSA, the Bank would be required to post estimated additional collateral against these contracts at September 30, 2014, of $12 million if the Bank were downgraded to Baa3/BBB-, and any further downgrades to Ba1/BB+ or below do not contain predetermined collateral posting levels.

Notional and Fair Value of Derivative Positions
The following tables present the Company’s derivative positions at September 30, 2014 and December 31, 2013. The notional amounts in the tables are presented on a gross basis and have been classified within Asset Derivatives or

Liability Derivatives based on the estimated fair value of the individual contract at September 30, 2014 and December 31, 2013. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements, including collateral arrangements. Net fair value derivative amounts are adjusted on an aggregate basis, where applicable, to take into consideration the effects of legally enforceable master netting agreements, including any cash collateral received or paid, and are recognized in trading assets and derivatives or trading liabilities and derivatives on the Consolidated Balance Sheets. For contracts constituting a combination of options that contain a written option and a purchased option (such as a collar), the notional amount of each option is presented separately, with the purchased notional amount generally being presented as an Asset Derivative and the written notional amount being presented as a Liability Derivative. For contracts that contain a combination of options, the fair value is generally presented as a single value with the purchased notional amount if the combined fair value is positive, and with the written notional amount, if the combined fair value is negative.

Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions) | September 30, 2014 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Notional Amounts | Fair Value | Notional Amounts | Fair Value |
| Derivatives designated in cash flow hedging relationships [1] | | | | |
| Interest rate contracts hedging floating rate loans | $16,900 | $241 | $5,750 | $17 |
| Derivatives designated in fair value hedging relationships [2] | | | | |
| Interest rate contracts covering fixed rate debt | 1,000 | 35 | 1,300 | 1 |
| Interest rate contracts covering brokered CDs | — | — | 30 | — |
| Total | 1,000 | 35 | 1,330 | 1 |
| Derivatives not designated as hedging instruments [3] | | | | |
| Interest rate contracts covering: | | | | |
| Fixed rate debt | — | — | 60 | 6 |
| MSRs | 3,738 | 69 | 8,041 | 21 |
| LHFS, IRLCs [4] | 1,876 | 4 | 3,081 | 5 |
| Trading activity [5] | 61,577 | 2,172 | 61,727 | 1,997 |
| Foreign exchange rate contracts covering trading activity | 2,809 | 80 | 2,287 | 74 |
| Credit contracts covering: | | | | |
| Loans | — | — | 572 | 8 |
| Trading activity [6] | 1,749 | 11 | 1,764 | 7 |
| Equity contracts - Trading activity [5] | 21,079 | 2,703 | 27,872 | 2,872 |
| Other contracts: | | | | |
| IRLCs and other [7] | 2,202 | 17 | 345 | 12 |
| Commodities | 273 | 8 | 263 | 7 |
| Total | 95,303 | 5,064 | 106,012 | 5,009 |
| Total derivatives | $113,203 | $5,340 | $113,092 | $5,027 |
| | | | | |
| Total gross derivatives, before netting | | $5,340 | | $5,027 |
| Less: Legally enforceable master netting agreements | | (3,791) | | (3,791) |
| Less: Cash collateral received/paid | | (312) | | (876) |
| Total derivatives, after netting | | $1,237 | | $360 |

[1] See “Cash Flow Hedges” in this Note for further discussion.
[2] See “Fair Value Hedges” in this Note for further discussion.
[3] See “Economic Hedging and Trading Activities” in this Note for further discussion.
[4] Amount includes $1.1 billion of notional amounts related to interest rate futures. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.
[5] Amounts include $13.3 billion and $409 million of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative assets/liabilities associated with the one day lag are included in the fair value column of this table.
[6] Asset and liability amounts each include $4 million, respectively, of notional from purchased and written credit risk participation agreements, respectively, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.
[7] Includes a notional amount that is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009 as discussed in Note 13, “Guarantees.” The fair value of the derivative liability, which relates to a notional amount of $55 million, is immaterial

and is recognized in trading assets and derivatives in the Consolidated Balance Sheets.

Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions) | December 31, 2013 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Notional Amounts | Fair Value | Notional Amounts | Fair Value |
| Derivatives designated in cash flow hedging relationships [1] | | | | |
| Interest rate contracts hedging floating rate loans | $17,250 | $471 | $— | $— |
| Derivatives designated in fair value hedging relationships [2] | | | | |
| Interest rate contracts covering fixed rate debt | 2,000 | 52 | 900 | 24 |
| Derivatives not designated as hedging instruments [3] | | | | |
| Interest rate contracts covering: | | | | |
| Fixed rate debt | — | — | 60 | 7 |
| MSRs | 1,425 | 27 | 6,898 | 79 |
| LHFS, IRLCs [4] | 4,561 | 30 | 1,317 | 5 |
| Trading activity [5] | 70,615 | 2,917 | 65,299 | 2,742 |
| Foreign exchange rate contracts covering trading activity | 2,449 | 61 | 2,624 | 57 |
| Credit contracts covering: | | | | |
| Loans | — | — | 427 | 5 |
| Trading activity [6] | 1,568 | 37 | 1,579 | 34 |
| Equity contracts - Trading activity [5] | 19,595 | 2,504 | 24,712 | 2,702 |
| Other contracts: | | | | |
| IRLCs and other [7] | 1,114 | 12 | 755 | 4 |
| Commodities | 241 | 14 | 228 | 14 |
| Total | 101,568 | 5,602 | 103,899 | 5,649 |
| Total derivatives | $120,818 | $6,125 | $104,799 | $5,673 |
| | | | | |
| Total gross derivatives, before netting | | $6,125 | | $5,673 |
| Less: Legally enforceable master netting agreements | | (4,284) | | (4,284) |
| Less: Cash collateral received/paid | | (457) | | (864) |
| Total derivatives, after netting | | $1,384 | | $525 |

[1] See “Cash Flow Hedges” in this Note for further discussion.
[2] See “Fair Value Hedges” in this Note for further discussion.
[3] See “Economic Hedging and Trading Activities” in this Note for further discussion.
[4] Amount includes $885 million of notional amounts related to interest rate futures. These futures contracts settle in cash daily, one day in arrears. The derivative liability associated with the one day lag is included in the fair value column of this table.
[5] Amounts include $15.2 billion and $157 million of notional related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset associated with the one day lag is included in the fair value column of this table.
[6] Asset and liability amounts each include $4 million and $5 million of notional from purchased and written interest rate swap risk participation agreements, respectively, whose notional is calculated as the notional of the interest rate swap participated adjusted by the relevant RWA conversion factor.
[7] Includes a notional amount that is based on the number of Visa Class B shares, 3.2 million, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009 as discussed in Note 13, “Guarantees.” The fair value of the derivative liability, which relates to a notional amount of $55 million, is immaterial and is recognized in other liabilities in the Consolidated Balance Sheets.

38

Notes to Consolidated Financial Statements (Unaudited), continued

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

The impacts of derivatives on the Consolidated Statements of Income and the Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2014 and 2013 are presented below. The impacts are segregated between those derivatives that are designated in hedging relationships and those that are used for economic hedging or trading purposes, with further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge.

| | Three Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|---|
| (Dollars in millions) | Amount of pre-tax loss recognized in OCI on Derivatives (Effective Portion) | Classification of gain reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain recognized in OCI on Derivatives (Effective Portion) | Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) |
| Derivatives in cash flow hedging relationships: | | | | | |
| Interest rate contracts hedging floating rate loans [1] | ($31) | Interest and fees on loans | $76 | $36 | $225 |

[1] During the three and nine months ended September 30, 2014, the Company also reclassified $23 million and $77 million, respectively, pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated and are reclassified into earnings in the same period in which the forecasted transaction occurs.

| | Three Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Amount of loss on Derivatives recognized in Income | Amount of gain on related Hedged Items recognized in Income | Amount of gain/(loss) recognized in Income on Hedges (Ineffective Portion) | Amount of gain on Derivatives recognized in Income | Amount of loss on related Hedged Items recognized in Income | Amount of gain recognized in Income on Hedges (Ineffective Portion) |
| Derivatives in fair value hedging relationships: | | | | | | |
| Interest rate contracts hedging fixed rate debt [1] | ($7) | $7 | $— | $10 | ($9) | $1 |

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

| (Dollars in millions) | Classification of (loss)/gain recognized in Income on Derivatives | Amount of gain recognized in Income on Derivatives during the Three Months | Amount of (loss)/gain recognized in Income on Derivatives during the Nine Months |
|---|---|---|---|

| | | Ended September 30, 2014 | Ended September 30, 2014 |
|---|---|---|---|
| Derivatives not designated as hedging instruments: | | | |
| Interest rate contracts covering: | | | |
| Fixed rate debt | Trading income | $— | ($1) |
| MSRs | Mortgage servicing related income | 17 | 138 |
| LHFS, IRLCs | Mortgage production related income/(loss) | 4 | (92) |
| Trading activity | Trading income | 9 | 35 |
| Foreign exchange rate contracts covering: | | | |
| Trading activity | Trading income | 44 | 43 |
| Credit contracts covering: | | | |
| Loans | Other noninterest income | 1 | — |
| Trading activity | Trading income | 4 | 13 |
| Equity contracts - trading activity | Trading income | 1 | 4 |
| Other contracts - IRLCs | Mortgage production related income/(loss) | 52 | 190 |
| Total | | $132 | $330 |

Notes to Consolidated Financial Statements (Unaudited), continued

| (Dollars in millions) | Three Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2013 | |
|---|---|---|---|---|---|
| | Amount of pre-tax gain recognized in OCI on Derivatives (Effective Portion) | Classification of gain/(loss) reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) | Amount of pre-tax (loss)/gain recognized in OCI on Derivatives (Effective Portion) | Amount of pre-tax gain reclassified from AOCI into Income (Effective Portion) |
| Derivatives in cash flow hedging relationships: | | | | | |
| Interest rate contracts hedging forecasted debt | $— | Interest on long-term debt | $— | ($2) | $— |
| Interest rate contracts hedging floating rate loans [1] | 60 | Interest and fees on loans | 80 | 17 | 246 |
| Total | $60 | | $80 | $15 | $246 |

[1] During the three and nine months ended September 30, 2013, the Company also reclassified $21 million and $69 million, respectively, pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been previously terminated or de-designated and are reclassified into earnings in the same period in which the forecasted transaction occurs.

| (Dollars in millions) | Three Months Ended September 30, 2013 | | | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Amount of gain on Derivatives recognized in Income | Amount of loss on related Hedged Items recognized in Income | Amount of loss recognized in Income on Hedges (Ineffective Portion) | Amount of loss on Derivatives recognized in Income | Amount of gain on related Hedged Items recognized in Income | Amount of loss recognized in Income on Hedges (Ineffective Portion) |
| Derivatives in fair value hedging relationships: | | | | | | |
| Interest rate contracts hedging fixed rate debt [1] | $4 | ($6) | ($2) | ($19) | $18 | ($1) |

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

| (Dollars in millions) | Classification of (loss)/gain recognized in Income on Derivatives | Amount of (loss)/gain recognized in Income on Derivatives during the Three Months Ended September 30, 2013 | Amount of gain/(loss) recognized in Income on Derivatives during the Nine Months Ended September 30, 2013 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Derivatives not designated as hedging instruments: | | | |
| Interest rate contracts covering: | | | |
| Fixed rate debt | Trading income | ($1 ) | $1 |
| MSRs | Mortgage servicing related income | (18 ) | ($232 ) |
| LHFS, IRLCs | Mortgage production related income/(loss) | (33 ) | 258 |
| Trading activity | Trading income | 20 | 46 |
| Foreign exchange rate contracts covering: | | | |
| Commercial loans | Trading income | 2 | 1 |
| Trading activity | Trading income | (9 ) | 17 |
| Credit contracts covering: | | | |
| Loans | Other noninterest income | (1 ) | (3 ) |
| Trading activity | Trading income | 6 | 16 |
| Equity contracts - trading activity | Trading income | 1 | (14 ) |
| Other contracts - IRLCs | Mortgage production related income/(loss) | 47 | 74 |
| Total | | $14 | $164 |

Netting of Derivatives

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's securities borrowed or purchased under agreements to resell, and securities sold under agreements to repurchase, that are subject to enforceable master netting agreements or similar agreements, are discussed in Note 3, "Federal Funds Sold and Securities Borrowed or Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase." The Company enters into ISDA or other legally enforceable industry standard master netting arrangements with derivative counterparties. Under the terms of the master netting arrangements, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and netted.

The table below shows total gross derivative assets and liabilities which are adjusted on an aggregate basis, where applicable to take into consideration the effects of legally enforceable master netting agreements, including any cash collateral received or paid, for the net reported amount in the Consolidated Balance Sheets. Also included in the table is financial instrument collateral related to legally enforceable master netting agreements that represents securities collateral received or pledged and customer cash collateral held at third-party custodians. These amounts are not offset on the Consolidated Balance Sheets but are shown as a reduction to total derivative assets and liabilities in the table to derive net derivative assets and liabilities. These amounts are limited to the derivative asset/liability balance, and accordingly, do not include excess collateral received/pledged.

The following tables present the Company's gross derivative financial assets and liabilities at September 30, 2014 and December 31, 2013, and the related impact of enforceable master netting arrangements and cash collateral, where applicable:

| (Dollars in millions) | Gross Amount | Amount Offset | Net Amount Presented in Consolidated Balance Sheets | | Held/Pledged Financial Instruments | Net Amount |
|---|---|---|---|---|---|---|
| September 30, 2014 | | | | | | |
| Derivative financial assets: | | | | | | |
| Derivatives subject to master netting arrangement or similar arrangement | $4,526 | $3,613 | $913 | | $58 | $855 |
| Derivatives not subject to master netting arrangement or similar arrangement | 17 | — | 17 | | — | 17 |
| Exchange traded derivatives | 797 | 490 | 307 | | — | 307 |
| Total derivative financial assets | $5,340 | $4,103 | $1,237 | [1] | $58 | $1,179 |
| Derivative financial liabilities: | | | | | | |
| Derivatives subject to master netting arrangement or similar arrangement | $4,385 | $4,177 | $208 | | $19 | $189 |
| Derivatives not subject to master netting arrangement or similar arrangement | 151 | — | 151 | | — | 151 |
| Exchange traded derivatives | 491 | 490 | 1 | | — | 1 |
| Total derivative financial liabilities | $5,027 | $4,667 | $360 | [2] | $19 | $341 |
| | | | | | | |
| December 31, 2013 | | | | | | |
| Derivative financial assets: | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Derivatives subject to master netting arrangement or similar arrangement | $5,285 | $4,239 | $1,046 | $51 | $995 |
| Derivatives not subject to master netting arrangement or similar arrangement | 12 | — | 12 | — | 12 |
| Exchange traded derivatives | 828 | 502 | 326 | — | 326 |
| Total derivative financial assets | $6,125 | $4,741 | $1,384 [1] | $51 | $1,333 |
| Derivative financial liabilities: | | | | | |
| Derivatives subject to master netting arrangement or similar arrangement | $4,982 | $4,646 | $336 | $13 | $323 |
| Derivatives not subject to master netting arrangement or similar arrangement | 189 | — | 189 | — | 189 |
| Exchange traded derivatives | 502 | 502 | — | — | — |
| Total derivative financial liabilities | $5,673 | $5,148 | $525 [2] | $13 | $512 |

[1] At September 30, 2014, $1.2 billion, net of $312 million offsetting cash collateral, is recognized in trading assets and derivatives within the Company's Consolidated Balance Sheets. At December 31, 2013, $1.4 billion, net of $457 million offsetting cash collateral, is recognized in trading assets and derivatives within the Company's Consolidated Balance Sheets.

[2] At September 30, 2014, $360 million, net of $876 million offsetting cash collateral, is recognized in trading liabilities and derivatives within the Company's Consolidated Balance Sheets. At December 31, 2013, $525 million, net of $864 million offsetting cash collateral, is recognized in trading liabilities and derivatives within the Company's Consolidated Balance Sheets.

Credit Derivatives

As part of its trading businesses, the Company enters into contracts that are, in form or substance, written guarantees: specifically, CDS, risk participations, and TRS. The Company accounts for these contracts as derivatives and, accordingly, recognizes these contracts at fair value, with changes in fair value recognized in trading income in the Consolidated Statements of Income.

The Company writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either net cash settle or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. At September 30, 2014 and December 31, 2013, all written CDS contracts reference single name corporate credits or corporate credit indices. When the Company has written CDS, it has generally entered into offsetting CDS for the underlying reference asset, under which the Company paid a premium to its counterparty for protection against an event of default on the reference asset. The counterparties to these purchased CDS are generally of high creditworthiness and typically have ISDA master netting agreements in place that subject the CDS to master netting provisions, thereby, mitigating the risk of non-payment to the Company. As such, at September 30, 2014 the Company did not have any material risk of making a non-recoverable payment on any written CDS. During 2014 and 2013, the only instances of default on written CDS were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS. At September 30, 2014, there were no written CDS positions outstanding. The fair values of written CDS were $3 million at December 31, 2013. The maximum guarantees outstanding at December 31, 2013, as measured by the gross notional amounts of written CDS, were $60 million. At September 30, 2014 and December 31, 2013, the gross notional amounts of purchased CDS contracts, which represent benefits to, rather than obligations of, the Company, were $15 million and $70 million, respectively. The fair values of purchased CDS were less than $1 million and $3 million at September 30, 2014 and December 31, 2013, respectively.

The Company has also entered into TRS contracts on loans. The Company's TRS business consists of matched trades, such that when the Company pays depreciation on one TRS, it receives the same amount on the matched TRS. To mitigate its credit risk, the Company typically receives initial cash collateral from the counterparty upon entering into the TRS and is entitled to additional collateral if the fair value of the underlying reference assets deteriorates. At September 30, 2014 and December 31, 2013, there were $1.7 billion and $1.5 billion of outstanding and offsetting TRS notional balances, respectively. The fair values of the TRS derivative assets and liabilities at September 30, 2014, were $10 million and $7 million, respectively, and related collateral held at September 30, 2014, was $267 million. The fair values of the TRS derivative assets and liabilities at December 31, 2013, were $35 million and $31 million, respectively, and related collateral held at December 31, 2013, was $228 million.

The Company writes risk participations, which are credit derivatives, whereby the Company has guaranteed payment to a dealer counterparty in the event that the counterparty experiences a loss on a derivative, such as an interest rate swap, due to a failure to pay by the counterparty's customer (the "obligor") on that derivative. The Company monitors its payment risk on its risk participations by monitoring the creditworthiness of the obligors, which is based on the normal credit review process the Company would have performed had it entered into the derivatives directly with the obligors. The obligors are all corporations or partnerships. The Company continues to monitor the creditworthiness of its obligors and the likelihood of payment could change at any time due to unforeseen circumstances. To date, no material losses have been incurred related to the Company's written risk participations. At September 30, 2014, the remaining terms on these risk participations generally ranged from less than one year to nine years, with a weighted average on the maximum estimated exposure of 5.4 years. The Company's maximum estimated exposure to written risk participations, as measured by projecting a maximum value of the guaranteed derivative instruments based on interest rate curve simulations and assuming 100% default by all obligors on the maximum values, was approximately

$30 million and $33 million at September 30, 2014 and December 31, 2013, respectively. The fair values of the written risk participations were less than $1 million at both September 30, 2014 and December 31, 2013. As part of its trading activities, the Company may enter into purchased risk participations to mitigate credit exposure to a derivative counterparty.

Cash Flow Hedges

The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company may employ various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management's assessment of future interest rates, as well as other factors.

Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. At September 30, 2014, the range of hedge maturities for hedges of floating rate loans was between less than one year and five years, with the weighted average being 1.8 years. The Company recorded no ineffectiveness on these hedges during

the three and nine months ended September 30, 2014. Ineffectiveness on these hedges was less than $1 million during the three and nine months ended September 30, 2013. At September 30, 2014, $231 million of the deferred net gains on derivatives that are recognized in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income on these hedged items. The amount to be reclassified into income includes both active and terminated or de-designated cash flow hedges. The Company may choose to terminate or de-designate a hedging relationship in this program due to a change in the risk management objective for that specific hedge item, which may arise in conjunction with an overall balance sheet management strategy.

Fair Value Hedges

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

Economic Hedging and Trading Activities

In addition to designated hedging relationships, the Company also enters into derivatives as an end user as a risk management tool to economically hedge risks associated with certain non-derivative and derivative instruments, along with entering into derivatives in a trading capacity with its clients.

The primary risks that the Company economically hedges are interest rate risk, foreign exchange risk, and credit risk. Economic hedging objectives are accomplished by entering into offsetting derivatives either on an individual basis or collectively on a macro basis and generally accomplish the Company's goal of mitigating the targeted risk. To the extent that specific derivatives are associated with specific hedged items, the notional amounts, fair values, and gains/(losses) on the derivatives are illustrated in the tables in this footnote.

- The Company utilizes interest rate derivatives to mitigate exposures from various instruments.

  The Company is subject to interest rate risk on its fixed rate debt. As market interest rates move, the fair value of the Company's debt is affected. To protect against this risk on certain debt issuances that the Company has elected to carry at fair value, the Company has entered into pay variable-receive fixed interest rate swaps that decrease in value in a rising rate environment and increase in value in a declining rate environment.

  The Company is exposed to risk on the returns of certain of its brokered deposits that are carried at fair value. To hedge against this risk, the Company has entered into interest rate derivatives that mirror the risk profile of the returns on these instruments.

  The Company is exposed to interest rate risk associated with MSRs, which the Company hedges with a combination of mortgage and interest rate derivatives, including forward and option contracts, futures, and forward rate agreements.

  The Company enters into mortgage and interest rate derivatives, including forward contracts, futures, and option contracts to mitigate interest rate risk associated with IRLCs and mortgage LHFS.
- The Company is exposed to foreign exchange rate risk associated with certain commercial loans.
- The Company enters into CDS to hedge credit risk associated with certain loans held within its Wholesale Banking segment. The Company accounts for these contracts as derivatives and, accordingly, recognizes these contracts at fair value, with changes in fair value recognized in other noninterest income in the Consolidated Statements of Income.
- Trading activity, as illustrated in the tables within this footnote, primarily includes interest rate swaps, equity derivatives, CDS, futures, options, foreign currency contracts, and commodities. These derivatives are entered into in a dealer capacity to facilitate client transactions or are utilized as a risk management tool by the Company as an end user in certain macro-hedging strategies. The macro-hedging strategies are focused on managing the Company's overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges

and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

## NOTE 13 – GUARANTEES

The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform and make future payments should certain triggering events occur. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provision of the Company's services. The following is a discussion of the guarantees that the Company has issued at September 30, 2014. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives as discussed in Note 12, "Derivative Financial Instruments."

### Letters of Credit

Letters of credit are conditional commitments issued by the Company, generally to guarantee the performance of a client to a third party in borrowing arrangements, such as CP, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients and may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as financial standby, performance standby, or commercial letters of credit.

At September 30, 2014 and December 31, 2013, the maximum potential amount of the Company's obligation was $3.2 billion and $3.3 billion for issued financial and performance standby letters of credit, respectively. The Company's outstanding letters of credit generally have a term of less than one year but may extend longer. If a letter of credit is drawn upon, the Company may seek recourse through the client's underlying loan obligation. If the client's line of credit is also in default, the Company may take possession of the collateral securing the line of credit, where applicable. The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with its credit policies. Some standby letters of credit are designed to be drawn upon and others are drawn upon only under circumstances of dispute or default in the underlying transaction to which the Company is not a party. In all cases, the Company is entitled to reimbursement from the applicant and may or may not also hold collateral to secure its interests. An internal assessment of the PD and loss severity in the event of default is performed consistent with the methodologies used for all commercial borrowers. The management of credit risk regarding letters of credit leverages the risk rating process to focus greater visibility on higher risk and/or higher dollar letters of credit. The associated reserve is a component of the unfunded commitments reserve recorded in other liabilities in the Consolidated Balance Sheets and included in the allowance for credit losses as disclosed in Note 6, "Allowance for Credit Losses." Additionally, unearned fees relating to letters of credit are recorded in other liabilities. The net carrying amount of unearned fees was immaterial at September 30, 2014 and December 31, 2013.

### Loan Sales and Servicing

STM, a consolidated subsidiary of the Company, originates and purchases residential mortgage loans, a portion of which are sold to outside investors in the normal course of business, through a combination of whole loan sales to GSEs, Ginnie Mae, and non-agency investors. Prior to 2008, the Company also sold loans through a limited number of Company-sponsored securitizations. When mortgage loans are sold, representations and warranties regarding certain attributes of the loans sold are made to third party purchasers. Subsequent to the sale, if a material underwriting deficiency or documentation defect is discovered, STM may be obligated to repurchase the mortgage loan or to reimburse an investor for losses incurred (make whole requests) if such deficiency or defect cannot be cured by STM within the specified period following discovery. Additionally, defects in the securitization process or breaches of underwriting and servicing representations and warranties can result in loan repurchases, as well as adversely affect the valuation of MSRs, servicing advances, or other mortgage loan-related exposures, such as OREO. These representations and warranties may extend through the life of the mortgage loan. STM's risk of loss under its representations and warranties is partially driven by borrower payment performance since investors will perform

extensive reviews of delinquent loans as a means of mitigating losses.



---

Notes to Consolidated Financial Statements (Unaudited), continued

Loan repurchase requests have arisen from loans sold during the period from January 1, 2005 to September 30, 2014, which totaled $307.3 billion at the time of sale, consisting of $241.1 billion and $36.0 billion of agency and non-agency loans, respectively, as well as $30.2 billion of loans sold to Ginnie Mae. The composition of the remaining outstanding loan balance by vintage and type of buyer at September 30, 2014, is shown in the following table:

| | Remaining Outstanding Balance by Year of Sale | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in billions) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
| GSE[1] | $1.5 | $1.7 | $3.2 | $2.9 | $9.5 | $6.4 | $7.2 | $16.3 | $20.0 | $9.6 | $78.3 |
| Ginnie Mae[1] | 0.4 | 0.2 | 0.2 | 0.9 | 2.7 | 2.1 | 1.8 | 3.6 | 3.3 | 1.7 | 16.9 |
| Non-agency | 3.0 | 4.4 | 2.7 | — | — | — | — | — | — | — | 10.1 |
| Total | $4.9 | $6.3 | $6.1 | $3.8 | $12.2 | $8.5 | $9.0 | $19.9 | $23.3 | $11.3 | $105.3 |

[1] Balances based on loans currently serviced by the Company and excludes loans serviced by others and certain loans in foreclosure.

Non-agency loan sales include whole loans and loans sold in private securitization transactions. While representations and warranties have been made related to these sales, they can differ in many cases from those made in connection with loans sold to the GSEs in that non-agency loans may not be required to meet the same underwriting standards and non-agency investors may be required to demonstrate that the alleged breach was material and caused the investors' loss.

Loans sold to Ginnie Mae are insured by either the FHA or VA. As servicer, the Company may elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. The Company indemnifies the FHA and VA for losses related to loans not originated in accordance with their guidelines. See Note 15, "Contingencies," for additional information on current legal matters related to representations and warranties made in connection with loan sales and the final settlement of HUD's investigation of the Company's origination practices for FHA loans.

Repurchase requests from GSEs, Ginnie Mae, and non-agency investors, for all vintages, were $139 million during the nine months ended September 30, 2014, $1.5 billion during the year ended December 31, 2013, and $1.7 billion during each year ended 2012 and 2011, respectively, and requests received since 2005 on a cumulative basis for all vintages totaled $8.6 billion. The majority of these requests were from GSEs, with a limited number of requests from non-agency investors. Repurchase requests from non-agency investors were $1 million during the nine months ended September 30, 2014, and were $18 million, $22 million, and $50 million during the years ended 2013, 2012 and 2011, respectively. Additionally, loans originated during 2006 - 2008 have consistently comprised the vast majority of total repurchase requests. During the third quarter of 2013, the Company reached agreements with Freddie Mac and Fannie Mae under which they released the Company from certain existing and future repurchase obligations for loans funded by Freddie Mac between 2000 and 2008 and Fannie Mae between 2000 and 2012.

The repurchase and make whole requests received have been primarily due to alleged material breaches of representations related to compliance with the applicable underwriting standards, including borrower misrepresentation and appraisal issues. STM performs a loan by loan review of all requests and contests demands to the extent they are not considered valid.

At September 30, 2014, the original UPB of loans related to unresolved requests previously received from investors was $45 million, comprised of $42 million from the GSEs and $3 million from non-agency investors. The comparable amount at December 31, 2013, was $126 million, comprised of $122 million from the GSEs and $4 million from non-agency investors.

A significant degree of judgment is used to estimate the mortgage repurchase liability as the estimation process is inherently uncertain and subject to imprecision. The Company believes that its reserve appropriately estimates incurred losses based on its current analysis and assumptions, inclusive of the Freddie Mac and Fannie Mae settlement agreements, GSE owned loans serviced by third party servicers, loans sold to private investors, and future indemnifications. At September 30, 2014 and December 31, 2013, the Company's estimate of the liability for incurred losses related to all vintages of mortgage loans sold totaled $77 million and $78 million, respectively. However, the 2013 agreements with Freddie Mac and Fannie Mae settling certain aspects of the Company's repurchase obligations preserve their right to require repurchases arising from certain types of events, and that preservation of rights can impact future losses of the Company. While the repurchase reserve includes the estimated cost of settling claims related to required repurchases, the Company's estimate of losses depends on its assumptions regarding GSE and other counterparty behavior, loan performance, home prices, and other factors. The liability is recorded in other liabilities in the Consolidated Balance Sheets, and the related repurchase provision is recognized as a contra-revenue item in mortgage production related income/(loss) in the Consolidated Statements of Income. The Company recorded $2 million and $12 million of mortgage repurchase provision expenses during the three and nine months ended September 30, 2014, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

The following table summarizes the changes in the Company's reserve for mortgage loan repurchases:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | $77 | $363 | $78 | $632 |
| Repurchase provision | 2 | 73 | 12 | 102 |
| Charge-offs, net of recoveries | (2) | (155) | (13) | (453) |
| Balance at end of period | $77 | $281 | $77 | $281 |

During the nine months ended September 30, 2014 and 2013, the Company repurchased or otherwise settled mortgages with original loan balances of $23 million and $800 million, respectively, related to investor demands. At September 30, 2014, the carrying value of outstanding repurchased mortgage loans, net of any allowance for loan losses, was $325 million, comprised of $318 million LHFI and $7 million LHFS, respectively, of which $48 million LHFI and $7 million LHFS, were nonperforming. At December 31, 2013, the carrying value of outstanding repurchased mortgage loans, net of any allowance for loan losses, was $339 million, comprised of $325 million LHFI and $14 million LHFS, respectively, of which $54 million LHFI and $14 million LHFS, were nonperforming.

In addition to representations and warranties related to loan sales, the Company makes representations and warranties that it will service the loans in accordance with investor servicing guidelines and standards, which may include (i) collection and remittance of principal and interest, (ii) administration of escrow for taxes and insurance, (iii) advancing principal, interest, taxes, insurance, and collection expenses on delinquent accounts, (iv) loss mitigation strategies including loan modifications, and (v) foreclosures.

The Company normally retains servicing rights when loans are transferred; however, servicing rights are occasionally sold to third parties. When MSRs are sold, the Company makes representations and warranties related to servicing standards and obligations and recognizes a liability for contingent losses, separate from the reserve for mortgage loan repurchases, which totaled $26 million and $21 million at September 30, 2014 and December 31, 2013, respectively.

Contingent Consideration

The Company has contingent payment obligations related to certain business combination transactions. Payments are calculated using certain post-acquisition performance criteria. The potential obligation and amount recorded as an other liability representing the fair value of the contingent payments was $24 million and $26 million at September 30, 2014 and December 31, 2013, respectively. If required, these contingent payments will be payable within the next two years.

Visa

The Company issues credit and debit transactions through Visa and MasterCard International. The Company is a defendant, along with Visa and MasterCard International (the "Card Associations"), as well as several other banks, in one of several antitrust lawsuits challenging the practices of the Card Associations (the "Litigation"). The Company entered into judgment and loss sharing agreements with Visa and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Litigation. Additionally, in connection with Visa's restructuring in 2007, a provision of the original Visa By-Laws, Section 2.05j, was restated in Visa's certificate of incorporation. Section 2.05j contains a general indemnification provision between a Visa member and Visa, and explicitly provides that after the closing of the restructuring, each member's indemnification obligation is limited to losses arising from its own conduct and the specifically defined Litigation. Agreements associated with Visa's IPO have provisions that Visa will fund a litigation escrow account, established for the purpose of funding judgments in, or settlements of, the Litigation. Since inception of the escrow account, Visa has funded over $8.5 billion into the escrow account, approximately $7.0 billion of which has been paid out in Litigation settlements or into a settlement fund, with approximately $1.5 billion remaining in the escrow account. If the escrow account is insufficient to cover the Litigation losses, then Visa will issue additional Class A shares ("loss shares"). The

proceeds from the sale of the loss shares would then be deposited in the escrow account. The issuance of the loss shares will cause a dilution of Visa's Class B shares as a result of an adjustment to lower the conversion factor of the Class B shares to Class A shares. Visa U.S.A.'s members are responsible for any portion of the settlement or loss on the Litigation after the escrow account is depleted and the value of the Class B shares is fully-diluted. In May 2009, the Company sold its 3.2 million Class B shares to the Visa Counterparty and entered into a derivative with the Visa Counterparty. The Company received $112 million and recognized a gain of $112 million in connection with these transactions. Under the derivative, the Visa Counterparty is compensated by the Company for any

decline in the conversion factor as a result of the outcome of the Litigation. Conversely, the Company is compensated by the Visa Counterparty for any increase in the conversion factor. The amount of payments made or received under the derivative is a function of the 3.2 million shares sold to the Visa Counterparty, the change in conversion rate, and Visa’s share price. The Visa Counterparty, as a result of its ownership of the Class B shares, is impacted by dilutive adjustments to the conversion factor of the Class B shares caused by the Litigation losses. The conversion factor at the inception of the derivative in May 2009 was 0.6296 and at September 30, 2014 the conversion factor was 0.4121 due to Visa’s funding of the litigation escrow account since 2009.
During 2012, the Card Associations and defendants signed a memorandum of understanding to enter into a settlement agreement to resolve the plaintiffs' claims in the Litigation. Visa's share of the claims represents approximately $4.4 billion, which was paid from the escrow account into a settlement fund during 2012. During 2013, various members of the putative class elected to opt out of the settlement which resulted in a proportional decrease in the amount of the settlement and a deposit of approximately $1.0 billion from the settlement fund back into the escrow account. During the third quarter of 2014, Visa deposited an additional $450 million into the escrow account, bringing the escrow account to approximately $1.5 billion. The estimated fair value of the derivative liability was $11 million and $2 million at September 30, 2014 and December 31, 2013, respectively; however, the ultimate impact to the Company could be significantly different if the settlement is not approved and/or based on the ultimate resolution with the plaintiffs that opted out of the settlement.

Tax Credit Investments Sold
SunTrust Community Capital, one of the Company's subsidiaries, previously obtained state and federal tax credits through the construction and development of affordable housing properties and continues to obtain state and federal tax credits through investments in affordable housing developments. SunTrust Community Capital or its subsidiaries are limited and/or general partners in various partnerships established for the properties. Some of the investments that generate state tax credits may be sold to outside investors. At September 30, 2014, SunTrust Community Capital has completed six sales containing guarantee provisions stating that SunTrust Community Capital will make payment to the outside investors if the tax credits become ineligible. SunTrust Community Capital also guarantees that the general partner under the transaction will perform on the delivery of the credits. The guarantees are expected to expire within a fifteen year period from inception. At September 30, 2014, the maximum potential amount that SunTrust Community Capital could be obligated to pay under these guarantees is $19 million; however, SunTrust Community Capital can seek recourse against the general partner. Additionally, SunTrust Community Capital can seek reimbursement from cash flow and residual values of the underlying affordable housing properties provided that the properties retain value. At September 30, 2014 and December 31, 2013, $1 million was accrued for the remainder of tax credits to be delivered, and was recorded in other liabilities in the Consolidated Balance Sheets.

NOTE 14 - FAIR VALUE ELECTION AND MEASUREMENT

The Company measures certain assets and liabilities at fair value on a recurring basis and classifies them as level 1, 2, or 3 within the fair value hierarchy on the basis of whether the measurement employs observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions taking into account information about market participant assumptions that is readily available. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy encompasses the following measurements:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's recurring fair value measurements are based on a requirement to measure such assets and liabilities at fair value or the Company's election to measure certain financial assets and liabilities at fair value. Assets and liabilities that are required to be measured at fair value on a recurring basis include trading securities, securities AFS, and derivative financial instruments. Assets and liabilities that the Company has elected to measure at fair value on a recurring basis include MSRs, and certain LHFS, LHFI, trading loans, brokered time deposits, and issuances of fixed rate debt.

The Company elects to measure certain assets and liabilities at fair value to more accurately align its financial performance with the economic value of actively traded or hedged assets or liabilities. The use of fair value also enables the Company to mitigate non-economic earnings volatility caused from financial assets and liabilities being carried at different bases of accounting, as well as, to more accurately portray the active and dynamic management of the Company's balance sheet.

Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions in estimating fair value. The assumptions used to estimate the value of an instrument have varying degrees of impact to the overall fair value of an asset or liability. This process involves the gathering of multiple sources of information, including broker quotes, values provided by pricing services, trading activity in other identical or similar securities, market indices, and pricing matrices. When observable market prices for the asset or liability are not available, the Company employs various modeling techniques, such as discounted cash flow analyses to estimate fair value. Models used to produce material financial reporting information are validated prior to use, and following any material change in methodology. Their performance is monitored quarterly, and any material deterioration in model performance is addressed. This review is performed by an internal group that reports to the Corporate Risk Function.

The Company has formal processes and controls in place to ensure the appropriateness of its fair value estimates. For fair values obtained from a third party or those that include certain trader estimates of fair value, there is an independent price validation function within the Finance organization that provides oversight for these estimates. For level 2 instruments and certain level 3 instruments, the validation generally involves evaluating pricing received from two or more other third party pricing sources that are widely used by market participants. The Company evaluates this pricing information from both a qualitative and quantitative perspective and determines whether any pricing differences exceed acceptable thresholds. If these thresholds are exceeded, then the Company assesses differences in valuation approaches used, which may include contacting a pricing service to gain further insight into the valuation of a particular security or class of securities to resolve the pricing variance, which could include an adjustment to the price used for financial reporting purposes.

The Company classifies instruments within level 2 in the fair value hierarchy when it determines that external pricing sources estimated fair value using prices for similar instruments trading in active markets. A wide range of quoted values from pricing sources may imply a reduced level of market activity and indicate that significant adjustments to price indications have been made. In such cases, the Company evaluates whether the asset or liability should be classified as level 3.

The classification of an instrument as level 3 involves judgment and is based on a variety of subjective factors including whether a market is inactive. A market is considered inactive if significant decreases in the volume and level of activity for the asset or liability have been observed. In making this determination the Company evaluates the number of recent transactions in either the primary or secondary market, whether price quotations are current, the nature of market participants, the variability of price quotations, the breadth of bid/ask spreads, declines in (or the absence of) new issuances, and the availability of public information. When a market is determined to be inactive, significant adjustments may be made to price indications when estimating fair value. In making these adjustments the Company seeks to employ assumptions a market participant would use to value the asset or liability, including consideration of illiquidity in the referenced market.

Notes to Consolidated Financial Statements (Unaudited), continued

Recurring Fair Value Measurements

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

| | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Fair Value Measurements | | | | |
| (Dollars in millions) | Level 1 | Level 2 | Level 3 | Netting Adjustments [1] | Assets/Liabilities at Fair Value |
| Assets | | | | | |
| Trading assets and derivatives: | | | | | |
| U.S. Treasury securities | $252 | $— | $— | $— | $252 |
| Federal agency securities | — | 460 | — | — | 460 |
| U.S. states and political subdivisions | — | 32 | — | — | 32 |
| MBS - agency | — | 498 | — | — | 498 |
| CLO securities | — | 5 | — | — | 5 |
| Corporate and other debt securities | — | 790 | — | — | 790 |
| CP | — | 261 | — | — | 261 |
| Equity securities | 59 | — | — | — | 59 |
| Derivative contracts | 798 | 4,525 | 17 | (4,103) | 1,237 |
| Trading loans | — | 2,188 | — | — | 2,188 |
| Total trading assets and derivatives | 1,109 | 8,759 | 17 | (4,103) | 5,782 |
| Securities AFS: | | | | | |
| U.S. Treasury securities | 1,011 | — | — | — | 1,011 |
| Federal agency securities | — | 970 | — | — | 970 |
| U.S. states and political subdivisions | — | 225 | 12 | — | 237 |
| MBS - agency | — | 22,811 | — | — | 22,811 |
| MBS - private | — | — | 132 | — | 132 |
| ABS | — | — | 21 | — | 21 |
| Corporate and other debt securities | — | 36 | 5 | — | 41 |
| Other equity securities [2] | 109 | — | 830 | — | 939 |
| Total securities AFS | 1,120 | 24,042 | 1,000 | — | 26,162 |
| Residential LHFS | — | 1,559 | 1 | — | 1,560 |
| LHFI | — | — | 284 | — | 284 |
| MSRs | — | — | 1,305 | — | 1,305 |
| Liabilities | | | | | |
| Trading liabilities and derivatives: | | | | | |
| U.S. Treasury securities | 621 | — | — | — | 621 |
| Corporate and other debt securities | — | 250 | — | — | 250 |
| Derivative contracts | 491 | 4,524 | 12 | (4,667) | 360 |
| Total trading liabilities and derivatives | 1,112 | 4,774 | 12 | (4,667) | 1,231 |
| Brokered time deposits | — | 87 | — | — | 87 |
| Long-term debt | — | 1,293 | — | — | 1,293 |
| Other liabilities [3] | — | — | 24 | — | 24 |

[1] Amounts represent offsetting cash collateral received from and paid to the same derivative counterparties and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists.

[2] Includes $421 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank stock, $109 million in mutual fund investments, and $7 million of other.
[3] Includes contingent consideration obligations related to acquisitions.

Notes to Consolidated Financial Statements (Unaudited), continued

| | December 31, 2013 Fair Value Measurements | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | Level 1 | Level 2 | Level 3 | Netting Adjustments [1] | Assets/Liabilities at Fair Value |
| Assets | | | | | |
| Trading assets and derivatives: | | | | | |
| U.S. Treasury securities | $219 | $— | $— | $— | $219 |
| Federal agency securities | — | 426 | — | — | 426 |
| U.S. states and political subdivisions | — | 65 | — | — | 65 |
| MBS - agency | — | 323 | — | — | 323 |
| CDO/CLO securities | — | 3 | 54 | — | 57 |
| ABS | — | — | 6 | — | 6 |
| Corporate and other debt securities | — | 534 | — | — | 534 |
| CP | — | 29 | — | — | 29 |
| Equity securities | 109 | — | — | — | 109 |
| Derivative contracts | 828 | 5,285 | 12 | (4,741) | 1,384 |
| Trading loans | — | 1,888 | — | — | 1,888 |
| Total trading assets and derivatives | 1,156 | 8,553 | 72 | (4,741) | 5,040 |
| Securities AFS: | | | | | |
| U.S. Treasury securities | 1,293 | — | — | — | 1,293 |
| Federal agency securities | — | 984 | — | — | 984 |
| U.S. states and political subdivisions | — | 203 | 34 | — | 237 |
| MBS - agency | — | 18,911 | — | — | 18,911 |
| MBS - private | — | — | 154 | — | 154 |
| ABS | — | 58 | 21 | — | 79 |
| Corporate and other debt securities | — | 37 | 5 | — | 42 |
| Other equity securities [2] | 103 | — | 739 | — | 842 |
| Total securities AFS | 1,396 | 20,193 | 953 | — | 22,542 |
| LHFS: | | | | | |
| Residential loans | — | 1,114 | 3 | — | 1,117 |
| Corporate and other loans | — | 261 | — | — | 261 |
| Total LHFS | — | 1,375 | 3 | — | 1,378 |
| LHFI | — | — | 302 | — | 302 |
| MSRs | — | — | 1,300 | — | 1,300 |
| Liabilities | | | | | |
| Trading liabilities and derivatives: | | | | | |
| U.S. Treasury securities | 472 | — | — | — | 472 |
| Corporate and other debt securities | — | 179 | — | — | 179 |
| Equity securities | 5 | — | — | — | 5 |
| Derivative contracts | 502 | 5,167 | 4 | (5,148) | 525 |
| Total trading liabilities and derivatives | 979 | 5,346 | 4 | (5,148) | 1,181 |
| Brokered time deposits | — | 764 | — | — | 764 |
| Long-term debt | — | 1,556 | — | — | 1,556 |

| | | | | | |
|---|---|---|---|---|---|
| Other liabilities [3] | — | — | 29 | — | 29 |

[1] Amounts represent offsetting cash collateral received from and paid to the same derivative counterparties and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists.
[2] Includes $336 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank stock, $103 million in mutual fund investments, and $1 million of other.
[3] Includes contingent consideration obligations related to acquisitions, as well as the derivative associated with the Company's sale of Visa shares during the year ended December 31, 2009.

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

| (Dollars in millions) | Aggregate Fair Value at September 30, 2014 | Aggregate UPB under FVO at September 30, 2014 | Fair Value Over/(Under) Unpaid Principal |
|---|---|---|---|
| Assets: | | | |
| Trading loans | $2,188 | $2,151 | $37 |
| LHFS | 1,559 | 1,511 | 48 |
| Nonaccrual | 1 | 2 | (1) |
| LHFI | 278 | 292 | (14) |
| Nonaccrual | 6 | 9 | (3) |
| Liabilities: | | | |
| Brokered time deposits | 87 | 87 | — |
| Long-term debt | 1,293 | 1,176 | 117 |

| (Dollars in millions) | Aggregate Fair Value at December 31, 2013 | Aggregate UPB under FVO at December 31, 2013 | Fair Value Over/(Under) Unpaid Principal |
|---|---|---|---|
| Assets: | | | |
| Trading loans | $1,888 | $1,858 | $30 |
| LHFS | 1,375 | 1,359 | 16 |
| Past due 90 days or more | 1 | 2 | (1) |
| Nonaccrual | 2 | 15 | (13) |
| LHFI | 294 | 317 | (23) |
| Nonaccrual | 8 | 12 | (4) |
| Liabilities: | | | |
| Brokered time deposits | 764 | 761 | 3 |
| Long-term debt | 1,556 | 1,432 | 124 |

Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present the change in fair value during the three and nine months ended September 30, 2014 and 2013 of financial instruments for which the FVO has been elected, as well as MSRs. The tables do not reflect the change in fair value attributable to the related economic hedges the Company uses to mitigate the market-related risks associated with the financial instruments. Generally, the changes in the fair value of economic hedges are also recognized in trading income, mortgage production related income/(loss), or mortgage servicing related income, as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company's economic hedging activities are deployed at both the instrument and portfolio level.

| | Fair Value Gain/(Loss) for the Three Months Ended September 30, 2014 for Items Measured at Fair Value Pursuant to Election of the FVO | | | | Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2014 for Items Measured at Fair Value Pursuant to Election of the FVO | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in millions) | Trading Income | Mortgage Production Related Income/(Loss) [1] | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current Period Earnings [2] | Trading Income | Mortgage Production Related Income/(Loss) [1] | Mortgage Servicing Related Income | Total Changes in Fair Values Included in Current Period Earnings [2] |
| Assets: | | | | | | | | |
| Trading loans | $1 | $— | $— | $1 | $10 | $— | $— | $10 |
| LHFS | — | (32) | — | (32) | — | (18) | — | (18) |
| LHFI | — | — | — | — | — | 8 | — | 8 |
| MSRs | — | — | (55) | (55) | — | 2 | (240) | (238) |
| Liabilities: | | | | | | | | |
| Brokered time deposits | 1 | — | — | 1 | 6 | — | — | 6 |
| Long-term debt | 9 | — | — | 9 | 6 | — | — | 6 |

[1] Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2014, income related to MSRs includes mortgage servicing income recognized upon the sale of loans reported at LOCOM.

[2] Changes in fair value for the three and nine months ended September 30, 2014 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be carried at fair value are recognized in interest income or interest expense in the Consolidated Statements of Income.

| | Fair Value Gain/(Loss) for the Three Months Ended September 30, 2013 for Items Measured at Fair Value Pursuant to Election of the FVO | | | Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2013 for Items Measured at Fair Value Pursuant to Election of the FVO | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Mortgage | Mortgage | | Trading | Mortgage | Mortgage |

| | Trading Income | Production Related Income/(Loss) [1] | Servicing Related Income | Total Changes in Fair Values Included in Current Period Earnings [2] | Income | Production Related Income/(Loss) [1] | Servicing Related Income | Total Changes in Fair Values Included in Current Period Earnings [2] |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Trading loans | $3 | $— | $— | $3 | $8 | $— | $— | $8 |
| LHFS | 1 | 4 | — | 5 | 2 | (103) | — | (101) |
| LHFI | — | 5 | — | 5 | — | (5) | — | (5) |
| MSRs | — | 1 | (56) | (55) | — | 3 | 42 | 45 |
| Liabilities: | | | | | | | | |
| Brokered time deposits | 2 | — | — | 2 | 6 | — | — | 6 |
| Long-term debt | — | — | — | — | 27 | — | — | 27 |

[1] Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2013, income related to MSRs includes mortgage servicing income recognized upon the sale of loans reported at LOCOM.

[2] Changes in fair value for the three and nine months ended September 30, 2013 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be carried at fair value are recognized in interest income or interest expense in the Consolidated Statements of Income.

The following is a discussion of the valuation techniques and inputs used in developing fair value measurements for assets and liabilities classified as level 2 or 3 that are measured at fair value on a recurring basis, based on the class of asset or liability as determined by the nature and risks of the instrument.

Trading Assets and Derivatives and Securities Available for Sale

Unless otherwise indicated, trading assets are priced by the trading desk and securities AFS are valued by an independent third party pricing service.

Federal agency securities

The Company includes in this classification securities issued by federal agencies and GSEs. Agency securities consist of debt obligations issued by HUD, FHLB, and other agencies or collateralized by loans that are guaranteed by the SBA and are, therefore, backed by the full faith and credit of the U.S. government. For SBA instruments, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service. Accordingly, the Company has classified these instruments as level 2.

U.S. states and political subdivisions

The Company's investments in U.S. states and political subdivisions (collectively "municipals") include obligations of county and municipal authorities and agency bonds, which are general obligations of the municipality or are supported by a specified revenue source. Holdings were geographically dispersed, with no significant concentrations in any one state or municipality. Additionally, all but an immaterial amount of AFS municipal obligations classified as level 2 are highly rated or are otherwise collateralized by securities backed by the full faith and credit of the federal government. Level 3 AFS municipal securities includes bonds that are only redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available.

MBS – agency

Agency MBS includes pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae. Each security contains a guarantee by the issuing GSE or agency. For agency MBS, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has classified these instruments as level 2.

MBS – private

Private MBS includes purchased interests in third party securitizations, as well as retained interests in Company-sponsored securitizations of 2006 and 2007 vintage residential mortgages; including both prime jumbo fixed rate collateral and floating rate collateral. At the time of purchase or origination, these securities had high investment grade ratings; however, through the credit crisis, they have experienced deterioration in credit quality leading to downgrades to non-investment grade levels. Generally, the Company obtains pricing for its securities from an independent pricing service. The Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, market information received from outside market participants and analysts, and/or changes in the underlying collateral performance. Even though third party pricing has been available, the Company continued to classify private MBS as level 3, as the Company believes that this third party pricing relies on significant unobservable assumptions, as evidenced by a persistently wide bid-ask price range and variability in pricing from the pricing services, particularly for the vintage and exposures held by the Company.

These securities that are classified as AFS are in an unrealized gain position at September 30, 2014. See Note 4, "Securities Available for Sale," for details regarding assumptions used to assess impairment and impairment amounts recognized through earnings on private MBS.

CLO securities

The Company has CLO preference share exposure valued at $5 million at September 30, 2014. The Company estimated fair value based on pricing from observable trading activity for similar securities. Accordingly, the Company has classified these instruments as level 2.

Asset-Backed Securities

ABS classified as securities AFS includes purchased interests in third party securitizations. These securities are classified as level 3, as the fair value is based on third party pricing with significant unobservable assumptions.

Corporate and other debt securities

Corporate debt securities are predominantly comprised of senior and subordinate debt obligations of domestic corporations and are classified as level 2. Other debt securities in level 3 primarily include bonds that are redeemable with the issuer at par and cannot be traded in the market; as such, observable market data for these instruments is not available.

Commercial Paper

From time to time, the Company acquires third party CP that is generally short-term in nature (less than 30 days) and highly rated. The Company estimates the fair value of this CP based on observable pricing from executed trades of similar instruments; thus, CP is classified as level 2.

Equity securities

Level 3 equity securities classified as securities AFS include FHLB stock and Federal Reserve Bank stock, which are redeemable with the issuer at cost and cannot be traded in the market. As such, observable market data for these instruments is not available. The Company accounts for the stock based on industry guidance that requires these investments be carried at cost and evaluated for impairment based on the ultimate recovery of cost.

Derivative contracts

The Company holds derivative instruments for both trading purposes and risk management purposes.

Level 1 derivative contracts generally include exchange-traded futures or option contracts for which pricing is readily available. The Company’s level 2 instruments are predominantly standard OTC swaps, options, and forwards, measured using observable market assumptions for interest rates, foreign exchange, equity, and credit. Because fair values for OTC contracts are not readily available, the Company estimates fair values using internal, but standard, valuation models. The selection of valuation models is driven by the type of contract: for option-based products, the Company uses an appropriate option pricing model, such as Black-Scholes; for forward-based products, the Company’s valuation methodology is generally a discounted cash flow approach.

Level 2 derivative instruments are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. To this end, the Company has evaluated liquidity premiums required by market participants, as well as the credit risk of its counterparties and its own credit. The Company has considered factors such as the likelihood of default by itself and its counterparties, its net exposures, and remaining maturities in determining the appropriate fair value adjustments to record. Generally, the expected loss of each counterparty is estimated using the Company's proprietary internal risk rating system. The risk rating system utilizes counterparty-specific PD and LGD estimates to derive the expected loss. For counterparties that are rated by national rating agencies, those ratings are also considered in estimating the credit risk. In addition, counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of marketable collateral securing the position. Specifically approved counterparties and exposure limits are defined. Creditworthiness of the approved counterparties is regularly reviewed and appropriate business action is taken to adjust the exposure to certain counterparties, as necessary. This approach used to estimate exposures to counterparties is also used by the Company to estimate its own credit risk on derivative liability positions. The Company does not currently employ a funding valuation adjustment to its derivative positions, as market practice in this area continues to evolve. See Note 12, “Derivative Financial Instruments,” for additional information on the Company's derivative contracts.

The Company's level 3 derivatives include IRLCs that satisfy the criteria to be treated as derivative financial instruments. The fair value of IRLCs on residential LHFS, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These “pull-through” rates are based on the Company’s historical data and reflect the Company’s best estimate of the likelihood that a commitment will ultimately result in a closed loan. As pull-through rates increase, the fair value of IRLCs also increases. Servicing value is included in the fair value of IRLCs, and the fair value of servicing is determined by projecting cash flows, which are then discounted to

estimate an expected fair value. The fair value of servicing is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets. During the three and nine months ended September 30, 2014, the Company transferred $64 million and $181 million, respectively, of net IRLCs out of level 3 as the associated loans were closed. During the three and nine months ended September 30, 2013, the Company transferred $50 million and $159 million, respectively, of net IRLCs out of level 3 as the associated loans were closed.

Trading loans

The Company engages in certain businesses whereby the election to measure loans at fair value for financial reporting aligns with the underlying business purpose. Specifically, the loans that are included within this classification are: (i) loans made or acquired in connection with the Company’s TRS business (see Note 8, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 12, “Derivative Financial Instruments,” for further discussion of this business), (ii) loans backed by the SBA, and (iii) the loan sales and trading business within the Company’s Wholesale Banking segment. All of these loans are classified as level 2, due to the market data that the Company uses in the estimate of fair value.

The loans made in connection with the Company’s TRS business are short-term, demand loans, whereby the repayment is senior in priority and whose value is collateralized. While these loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are made by the Company to arrive at this conclusion. At September 30, 2014 and December 31, 2013, the Company had outstanding $1.7 billion and $1.5 billion, respectively, of such short-term loans carried at fair value.

SBA loans are similar to SBA securities discussed herein under “Federal agency securities,” except for their legal form. In both cases, the Company trades instruments that are fully guaranteed by the U.S. government as to contractual principal and interest and there is sufficient observable trading activity upon which to base the estimate of fair value. As these SBA loans are fully guaranteed, the changes in fair value are attributable to factors other than instrument-specific credit risk.

The loans from the Company’s sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to measure these loans at fair value since they are actively traded. For both the three and nine months ended September 30, 2014 and 2013, gains or losses the Company recognized in the Consolidated Statements of Income due to changes in fair value attributable to instrument-specific credit risk were immaterial. The Company is able to obtain fair value estimates for substantially all of these loans through a third party valuation service that is broadly used by market participants. While most of the loans are traded in the market, the Company does not believe that trading activity qualifies the loans as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded, such that the Company believes that level 2 is a more appropriate presentation of the underlying market activity for the loans. At September 30, 2014 and December 31, 2013, $373 million and $313 million, respectively, of loans related to the Company’s trading business were held in inventory.

Loans Held for Sale and Loans Held for Investment

Residential LHFS

The Company values certain newly-originated mortgage LHFS predominantly at fair value based upon defined product criteria. The Company chooses to fair value these mortgage LHFS to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. Origination fees and costs are recognized in earnings when earned or incurred. The servicing value is included in the fair value of the loan and initially recognized at the time the Company enters into IRLCs with borrowers. The Company uses derivatives to economically hedge changes in interest rates and servicing value in the fair value of the loan. The mark-to-market adjustments related to LHFS and the associated economic hedges are captured in mortgage production related income/(loss).

Level 2 LHFS are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities adjusted for servicing, interest rate risk, and credit risk. Non-agency residential mortgages are also included in level 2 LHFS. Transfers of certain mortgage LHFS into level 3 during the three and nine months ended September 30, 2014 and 2013 were not due to using alternative valuation approaches, but were largely due to borrower defaults or the identification of other loan defects impacting the marketability of the loans.

For residential loans that the Company has elected to measure at fair value, the Company considers the component of the fair value changes due to instrument-specific credit risk, which is intended to be an approximation of the fair value

change attributable to changes in borrower-specific credit risk. For both the three and nine months ended September 30, 2014 and 2013, gains or losses the Company recognized in the Consolidated Statements of Income due to changes in fair value attributable to borrower-specific credit risk were immaterial. In addition to borrower-specific credit risk, there are other, more significant, variables that drive changes in the fair values of the loans, including interest rates and general conditions in the markets for the loans.

Corporate and other LHFS
As discussed in Note 8, “Certain Transfers of Financial Assets and Variable Interest Entities,” the Company was previously the primary beneficiary of a CLO entity, which resulted in the Company consolidating its underlying loans. During the second quarter of 2014, in connection with the sale of RidgeWorth, the Company determined it was no longer the primary beneficiary of the CLO, and accordingly, the CLO was deconsolidated. Prior to the second quarter of 2014, the Company elected to measure the loans of the CLO at fair value because the loans were periodically traded by the CLO. For the three and nine months ended September 30, 2014, the Company recognized no gains or losses, and an immaterial amount of gains, due to changes in fair value attributable to borrower-specific credit risk in the Consolidated Statements of Income, compared to gains of $1 million and $2 million, for the same periods in 2013, respectively.
LHFI
Level 3 LHFI predominantly includes mortgage loans that are deemed not marketable, largely due to the identification of loan defects. The Company chooses to fair value these mortgage LHFI to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. The Company values these loans using a discounted cash flow approach based on assumptions that are generally not observable in current markets, such as prepayment speeds, default rates, loss severity rates, and discount rates. These assumptions have an inverse relationship to the overall fair value. Level 3 LHFI also includes mortgage loans that are valued using collateral based pricing. Changes in the applicable housing price index since the time of the loan origination are considered and applied to the loan's collateral value. An additional discount representing the return that a buyer would require is also considered in the overall fair value.

Mortgage Servicing Rights
The Company records MSR assets at fair value. These values are determined by projecting cash flows, which are then discounted. The fair values of MSRs are impacted by a variety of factors, including prepayment assumptions, spreads, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. For additional information, see Note 7, "Goodwill and Other Intangible Assets." The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio. Because these inputs are not transparent in market trades, MSRs are classified as level 3 assets.

Liabilities
Trading liabilities and derivatives
Trading liabilities are primarily comprised of derivative contracts, but also include various contracts involving U.S. Treasury securities, equity securities, and corporate and other debt securities that the Company uses in certain of its trading businesses. The Company employs the same valuation methodologies for these derivative contracts and securities as are discussed within the corresponding sections herein under “Trading Assets and Derivatives and Securities Available for Sale.”
During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of litigation involving Visa. The value of the derivative was estimated based on the Company’s expectations regarding the ultimate resolution of that litigation, which involved a high degree of judgment and subjectivity. Accordingly, the value of the derivative liability is classified as a level 3 instrument. See Note 13, "Guarantees," for a discussion of the valuation assumptions.
Brokered time deposits
The Company has elected to measure certain CDs at fair value. These debt instruments include embedded derivatives that are generally based on underlying equity securities or equity indices, but may be based on other underlyings that may or may not be clearly and closely related to the host debt instrument. The Company elected to measure certain of

these instruments at fair value to better align the economics of the CDs with the Company's risk management strategies. The Company evaluated, on an instrument by instrument basis, whether a new issuance would be measured at fair value.

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

For brokered time deposits carried at fair value, the Company estimated credit spreads above LIBOR based on credit spreads from actual or estimated trading levels of the debt or other relevant market data. For the three and nine months ended September 30, 2014 and 2013, the Company recognized an immaterial amount of losses due to changes in its own credit spread on its brokered time deposits carried at fair value.

Long-term debt

The Company has elected to measure at fair value certain fixed rate debt issuances of public debt which are valued by obtaining quotes from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. Additionally, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company determined that the appropriate classification for the debt is level 2. The election to fair value the debt was made to align the accounting for the debt with the accounting for the derivatives without having to account for the debt under hedge accounting, thus avoiding the complex and time consuming fair value hedge accounting requirements.

The Company's public debt carried at fair value impacts earnings predominantly through changes in the Company's credit spreads as the Company has entered into derivative financial instruments that economically convert the interest rate on the debt from fixed to floating. The estimated earnings impact from changes in credit spreads above U.S. Treasury rates were gains of $2 million and losses of $24 million for the three and nine months ended September 30, 2014, respectively, and losses of $9 million and $27 million for the three and nine months ended September 30, 2013, respectively.

At September 30, 2014, the Company did not measure any issued securities of a CLO at fair value. Previously, the Company classified these types of securities as level 2, as the primary driver of their fair values were the loans owned by the CLO, which the Company also elected to measure at fair value prior to the deconsolidation of the CLO, as discussed herein under "Loans Held for Sale and Loans Held for Investment–Corporate and other LHFS."

Other liabilities

The Company's other liabilities that are carried at fair value on a recurring basis include contingent consideration obligations related to acquisitions. Contingent consideration associated with acquisitions is adjusted to fair value until settled. As the assumptions used to measure fair value are based on internal metrics that are not market observable, the earn-out is considered a level 3 liability.

Notes to Consolidated Financial Statements (Unaudited), continued

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

Level 3 Significant Unobservable Input Assumptions

| (Dollars in millions) | Fair value September 30, 2014 | Valuation Technique | Unobservable Input [1] | Range (weighted average) |
|---|---|---|---|---|
| Assets | | | | |
| Trading assets and derivatives: | | | | |
| Derivative contracts, net [2] | $5 | Internal model | Pull through rate | 10-100% (72%) |
| | | | MSR value | 42-210 bps (110 bps) |
| Securities AFS: | | | | |
| U.S. states and political subdivisions | 12 | Cost | N/A | |
| MBS - private | 132 | Third party pricing | N/A | |
| ABS | 21 | Third party pricing | N/A | |
| Corporate and other debt securities | 5 | Cost | N/A | |
| Other equity securities | 830 | Cost | N/A | |
| Residential LHFS | 1 | Monte Carlo/Discounted cash flow | Option adjusted spread | 145-165 bps (150 bps) |
| | | | Conditional prepayment rate | 0-30 CPR (16.5 CPR) |
| | | | Conditional default rate | 0-3 CDR (0.5 CDR) |
| LHFI | 278 | Monte Carlo/Discounted cash flow | Option adjusted spread | 0-450 bps (285 bps) |
| | | | Conditional prepayment rate | 4-30 CPR (12.5 CPR) |
| | | | Conditional default rate | 0-7 CDR (1.75 CDR) |
| | 6 | Collateral based pricing | Appraised value | NM [4] |
| MSRs | 1,305 | Monte Carlo/Discounted cash flow | Conditional prepayment rate | 1-19 CPR (9 CPR) |
| | | | Option adjusted spread | 1-113% (10%) |
| Liabilities | | | | |
| Other liabilities [3] | 24 | Internal model | Loan production volume | 0-150% (96%) |

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

[2] Represents the net of IRLC assets and liabilities entered into by the Mortgage Banking segment.

[3] Input assumptions relate to the Company's contingent consideration obligations related to acquisitions. See Note 13, "Guarantees," for additional information.

[4] Not meaningful.

58

Notes to Consolidated Financial Statements (Unaudited), continued

Level 3 Significant Unobservable Input Assumptions

| (Dollars in millions) | Fair value December 31, 2013 | Valuation Technique | Unobservable Input [1] | Range (weighted average) |
|---|---|---|---|---|
| Assets | | | | |
| Trading assets and derivatives: | | | | |
| CDO/CLO securities | $54 | Matrix pricing/Discounted cash flow | Indicative pricing based on overcollateralization ratio | $50-$60 ($54) |
| | | | Discount margin | 4-6% (5%) |
| ABS | 6 | Matrix pricing | Indicative pricing | $55 ($55) |
| Derivative contracts, net [2] | 8 | Internal model | Pull through rate | 1-99% (74%) |
| | | | MSR value | 42-222 bps (111 bps) |
| Securities AFS: | | | | |
| U.S. states and political subdivisions | 34 | Matrix pricing | Indicative pricing | $80-$111 ($95) |
| MBS - private | 154 | Third party pricing | N/A | |
| ABS | 21 | Third party pricing | N/A | |
| Corporate and other debt securities | 5 | Cost | N/A | |
| Other equity securities | 739 | Cost | N/A | |
| Residential LHFS | 3 | Monte Carlo/Discounted cash flow | Option adjusted spread | 250-675 bps (277 bps) |
| | | | Conditional prepayment rate | 2-10 CPR (7 CPR) |
| | | | Conditional default rate | 0-4 CDR (0.5 CDR) |
| LHFI | 292 | Monte Carlo/Discounted cash flow | Option adjusted spread | 0-675 bps (307 bps) |
| | | | Conditional prepayment rate | 1-30 CPR (13 CPR) |
| | | | Conditional default rate | 0-7 CDR (2.5 CDR) |
| | 10 | Collateral based pricing | Appraised value | NM [4] |
| MSRs | 1,300 | Discounted cash flow | Conditional prepayment rate | 4-25 CPR (8 CPR) |
| | | | Discount rate | 9-28% (12%) |
| Liabilities | | | | |
| Other liabilities [3] | 23 | Internal model | Loan production volume | 0-150% (92%) |
| | 3 | Internal model | Revenue run rate | NM [4] |

[1] For certain assets and liabilities where the Company utilizes third party pricing, the unobservable inputs and their ranges are not reasonably available to the Company, and therefore, have been noted as not applicable, "N/A."
[2] Represents the net of IRLC assets and liabilities entered into by the Mortgage Banking segment.
[3] Input assumptions relate to the Company's contingent consideration obligations related to acquisitions. Excludes $3 million of Other Liabilities. See Note 13, "Guarantees," for additional information.

[4] Not meaningful.

The following tables present a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (other than MSRs which are disclosed in Note 7, "Goodwill and Other Intangible Assets"). Transfers into and out of the fair value hierarchy levels are assumed to be as of the end of the quarter in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values. There were no transfers between level 1 and 2 during the three and nine months ended September 30, 2014 and 2013.

| | Fair Value Measurements Using Significant Unobservable Inputs | | |
| --- | --- | --- | --- |
| (Dollars in millions) | Beginning balance July 1, 2014 | Included in earnings | OCI |