

SUNTRUST BANKS INC  
Form 10-Q  
November 08, 2013

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

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

Commission File Number 001-08918

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

Georgia  
(State or other jurisdiction  
of incorporation or organization)  
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)

58-1575035  
(I.R.S. Employer  
Identification No.)

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 ✓ 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).

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ✓

At November 1, 2013, 536,082,029 shares of the Registrant’s Common Stock, \$1.00 par value, were outstanding.



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GLOSSARY OF DEFINED TERMS

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

Fed funds — Federal funds.  
FFELP — Federal Family Education Loan Program.  
FHA — Federal Housing Administration.  
FHLB — Federal Home Loan Bank.  
FICO — Fair Isaac Corporation.  
Fitch — Fitch Ratings Ltd.  
Form 8-K items - Items disclosed in Form 8-K that was filed with the SEC on September 6, 2012 or October 10, 2013.  
FRB — Federal Reserve Board.  
FTE — Fully taxable-equivalent.  
FVO — Fair value option.  
GenSpring — GenSpring Family Offices, LLC.  
GSE — Government-sponsored enterprise.  
HAMP — Home Affordable Modification Program.  
HARP — Home Affordable Refinance Program.  
HUD — U.S. Department of Housing and Urban Development.  
IIS — Institutional Investment Solutions.  
IPO — Initial public offering.  
IRLC — Interest rate lock commitment.  
IRS — Internal Revenue Service.  
ISDA — International Swaps and Derivatives Association.  
LCR — Liquidity coverage ratio.  
LGD — Loss given default.  
LHFI — Loans held for investment.  
LHFI-FV — Loans held for investment carried at fair value.  
LHFS — Loans held for sale.  
LIBOR — London InterBank Offered Rate.  
LOCOM — Lower of cost or market.  
LTI — Long-term incentive.  
LTV — Loan to value.  
MBS — Mortgage-backed securities.  
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operations.  
Moody's — Moody's Investors Service.  
MRA — Master Repurchase Agreement.  
MRMG — Model Risk Management Group.  
MSR — Mortgage servicing right.  
MVE — Market value of equity.  
NOW — Negotiable order of withdrawal account.  
NOL — Net operating loss.  
NPA — Nonperforming assets.  
NPL — Nonperforming loan.  
OCC — Office of the Comptroller of the Currency.  
OCI — Other comprehensive income.  
OIG — Office of Inspector General.  
OREO — Other real estate owned.

OTC — Over-the-counter.  
OTTI — Other-than-temporary impairment.  
Parent Company — SunTrust Banks, Inc., the parent Company of SunTrust Bank and other subsidiaries of SunTrust Banks, Inc.  
PD — Probability of default.  
QSPE — Qualifying special-purpose entity.  
RidgeWorth — RidgeWorth Capital Management, Inc.  
ROA — Return on average total assets.  
ROE — Return on average common shareholders' equity.  
RSU — Restricted stock unit.  
RWA — Risk-weighted assets.  
S&P — Standard and Poor's.  
SBA — Small Business Administration.  
SCAP — Supervisory Capital Assessment Program.  
SEC — U.S. Securities and Exchange Commission.  
SERP — Supplemental Executive Retirement Plan.  
SPE — Special purpose entity.  
STIS — SunTrust Investment Services, Inc.  
STM — SunTrust Mortgage, Inc.  
STRH — SunTrust Robinson Humphrey, Inc.  
SunTrust — SunTrust Banks, Inc.  
SunTrust Community Capital — SunTrust Community Capital, LLC.  
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.  
W&IM — Wealth and Investment Management.

## PART I - FINANCIAL INFORMATION

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

## Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

## Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2013	2012	2013	2012
<b>Interest Income</b>				
Interest and fees on loans	\$1,148	\$1,257	\$3,474	\$3,820
Interest and fees on loans held for sale	30	29	90	84
Interest and dividends on securities available for sale <sup>1</sup>	143	144	429	519
Trading account interest and other	18	15	52	48
Total interest income	1,339	1,445	4,045	4,471
<b>Interest Expense</b>				
Interest on deposits	70	98	224	342
Interest on long-term debt	52	66	156	244
Interest on other borrowings	9	10	25	29
Total interest expense	131	174	405	615
Net interest income	1,208	1,271	3,640	3,856
Provision for credit losses	95	450	453	1,067
Net interest income after provision for credit losses	1,113	821	3,187	2,789
<b>Noninterest Income</b>				
Service charges on deposit accounts	168	172	492	504
Trust and investment management income	133	127	387	387
Retail investment services	68	60	198	180
Other charges and fees	91	97	277	305
Investment banking income	99	83	260	230
Trading income	33	19	124	145
Card fees	77	74	231	239
Mortgage production related (loss)/income	(10)	(64)	282	102
Mortgage servicing related income	11	64	50	215
Net securities gains <sup>2</sup>	—	1,941	2	1,973
Other noninterest income/(loss)	10	(31)	98	78
Total noninterest income	680	2,542	2,401	4,358
<b>Noninterest Expense</b>				
Employee compensation	611	670	1,856	1,977
Employee benefits	71	110	322	363
Outside processing and software	190	171	555	527
Net occupancy expense	86	92	261	267
Regulatory assessments	45	67	140	179
Equipment expense	45	49	136	140
Operating losses	350	71	461	200
Credit and collection services	139	65	224	181
Marketing and customer development	34	75	95	134
Other staff expense	22	41	46	75
Amortization/impairment of intangible assets/goodwill	6	17	18	39
Other real estate expense	4	30	4	133

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Net loss on debt extinguishment	—	2	—	15
Other noninterest expense	140	266	385	583
Total noninterest expense	1,743	1,726	4,503	4,813
Income before (benefit)/provision for income taxes	50	1,637	1,085	2,334
(Benefit)/provision for income taxes	(146	) 551	151	710
Net income including income attributable to noncontrolling interest	196	1,086	934	1,624
Net income attributable to noncontrolling interest	7	9	16	22
Net income	\$189	\$1,077	\$918	\$1,602
Net income available to common shareholders	\$179	\$1,066	\$884	\$1,581
Net income per average common share:				
Diluted	\$0.33	\$1.98	\$1.64	\$2.94
Basic	0.33	1.99	1.65	2.96
Dividends declared per common share	0.10	0.05	0.25	0.15
Average common shares - diluted	538,850	538,699	539,488	537,538
Average common shares - basic	533,829	534,506	534,887	533,859

<sup>1</sup> Includes dividends on Coke common stock of \$31 million during the nine months ended September 30, 2012.

<sup>2</sup> Total OTTI was \$0 million for the three months ended September 30, 2013 and 2012. Of total OTTI, losses of \$0 million and \$3 million were recognized in earnings, and gains of \$0 million and \$3 million were recognized as non-credit-related OTTI in OCI for the three months ended September 30, 2013 and 2012, respectively. Total OTTI was \$0 million for the nine months ended September 30, 2013 and 2012. Of total OTTI, losses of \$1 million and \$7 million were recognized in earnings, and gains of \$1 million and \$7 million were recognized as non-credit-related OTTI in OCI for the nine months ended September 30, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements (unaudited).



SunTrust Banks, Inc.

Consolidated Statements of Comprehensive Income/(Loss)

(Dollars in millions) (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income	\$189	\$1,077	\$918	\$1,602
Components of other comprehensive loss:				
Change in net unrealized gains on securities, net of tax of (\$7), (\$795), (\$272), and (\$688), respectively	(11	) (1,448	) (466	) (1,256
Change in net unrealized gains on derivatives, net of tax of (\$15), \$111, (\$111), and \$15, respectively	(26	) 204	(189	) 34
Change related to employee benefit plans, net of tax of \$3, \$3, \$18, and (\$13), respectively	4	5	30	(23
Total other comprehensive loss	(33	) (1,239	) (625	) (1,245
Total comprehensive income/(loss)	\$156	(\$162	) \$293	\$357
See Notes to Consolidated Financial Statements (unaudited).				

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SunTrust Banks, Inc.  
Consolidated Balance Sheets

(Dollars in millions and shares in thousands) (Unaudited)	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	\$3,041	\$7,134
Federal funds sold and securities borrowed or purchased under agreements to resell	1,222	1,101
Interest-bearing deposits in other banks	23	22
Cash and cash equivalents	4,286	8,257
Trading assets (includes encumbered securities pledged against repurchase agreements of \$764 and \$727 at September 30, 2013 and December 31, 2012, respectively)	5,731	6,049
Securities available for sale	22,626	21,953
Loans held for sale <sup>1</sup> (\$2,240 and \$3,243 at fair value at September 30, 2013 and December 31, 2012, respectively)	2,462	3,399
Loans <sup>2</sup> (\$316 and \$379 at fair value at September 30, 2013 and December 31, 2012, respectively)	124,340	121,470
Allowance for loan and lease losses	(2,071)	(2,174)
Net loans	122,269	119,296
Premises and equipment	1,515	1,564
Goodwill	6,369	6,369
Other intangible assets (MSRs at fair value: \$1,248 and \$899 at September 30, 2013 and December 31, 2012, respectively)	1,287	956
Other real estate owned	196	264
Other assets	5,036	5,335
Total assets	\$171,777	\$173,442
Liabilities and Shareholders' Equity		
Noninterest-bearing consumer and commercial deposits	\$39,006	\$39,481
Interest-bearing consumer and commercial deposits	87,855	90,699
Total consumer and commercial deposits	126,861	130,180
Brokered time deposits (CDs at fair value: \$784 and \$832 at September 30, 2013 and December 31, 2012, respectively)	2,022	2,136
Total deposits	128,883	132,316
Funds purchased	934	617
Securities sold under agreements to repurchase	1,574	1,574
Other short-term borrowings	4,479	3,303
Long-term debt <sup>3</sup> (\$1,593 and \$1,622 at fair value at September 30, 2013 and December 31, 2012, respectively)	9,985	9,357
Trading liabilities	1,264	1,161
Other liabilities	3,588	4,129
Total liabilities	150,707	152,457
Preferred stock, no par value	725	725
Common stock, \$1.00 par value	550	550
Additional paid in capital	9,117	9,174
Retained earnings	11,573	10,817
Treasury stock, at cost, and other <sup>4</sup>	(579)	(590)
Accumulated other comprehensive (loss)/income, net of tax	(316)	309
Total shareholders' equity	21,070	20,985
Total liabilities and shareholders' equity	\$171,777	\$173,442

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Common shares outstanding	537,549	538,959
Common shares authorized	750,000	750,000
Preferred shares outstanding	7	7
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	12,372	10,962
<sup>1</sup> Includes loans held for sale, at fair value, of consolidated VIEs	\$314	\$319
<sup>2</sup> Includes loans of consolidated VIEs	336	365
<sup>3</sup> Includes debt of consolidated VIEs (\$284 and \$286 at fair value at September 30, 2013 and December 31, 2012, respectively)	634	666
<sup>4</sup> Includes noncontrolling interest held	116	114

See Notes to Consolidated Financial Statements (unaudited).

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## 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 <sup>1</sup>	Accumulated	Total
							Other Comprehensive Income <sup>2</sup> (Loss)/	
Balance, January 1, 2012	\$275	537	\$550	\$9,306	\$8,978	(\$792 )	\$1,749	\$20,066
Net income	—	—	—	—	1,602	—	—	1,602
Other comprehensive loss	—	—	—	—	—	—	(1,245 )	(1,245 )
Change in noncontrolling interest	—	—	—	—	—	7	—	7
Common stock dividends, \$0.15 per share	—	—	—	—	(81 )	—	—	(81 )
Preferred stock dividends, \$3,056 per share	—	—	—	—	(8 )	—	—	(8 )
Exercise of stock options and stock compensation expense	—	1	—	(35 )	—	51	—	16
Restricted stock activity	—	1	—	(64 )	—	69	—	5
Amortization of restricted stock compensation	—	—	—	—	—	22	—	22
Issuance of stock for employee benefit plans and other	—	—	—	(12 )	—	27	—	15
Balance, September 30, 2012	\$275	539	\$550	\$9,195	\$10,491	(\$616 )	\$504	\$20,399
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 <sup>3</sup>	—	—	—	—	(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

<sup>1</sup> At September 30, 2013, includes (\$636) million for treasury stock, (\$59) million for compensation element of restricted stock, and \$116 million for noncontrolling interest.

At September 30, 2012, includes (\$673) million for treasury stock, (\$57) million for compensation element of restricted stock, and \$114 million for noncontrolling interest.

<sup>2</sup> Components of AOCI at September 30, 2013, included \$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. At September 30, 2012, components included \$607 million in unrealized net gains on AFS securities, \$603 million in unrealized net gains on derivative financial instruments, and (\$706) million related to employee benefit plans.

<sup>3</sup> Dividends were \$3,044 per share for Perpetual Preferred Stock Series A and B and \$4,325 per share for Perpetual Preferred Stock Series E for the nine months ended September 30, 2013.

See Notes to Consolidated Financial Statements (unaudited).

## SunTrust Banks, Inc.

## Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income including income attributable to noncontrolling interest	\$934	\$1,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	542	567
Origination of mortgage servicing rights	(302)	(244)
Provisions for credit losses and foreclosed property	495	1,191
Mortgage repurchase provision	102	701
Stock option compensation and amortization of restricted stock compensation	25	26
Net securities gains	(2)	(1,973)
Net gain on sale of loans held for sale, loans, and other assets	(169)	(839)
Net decrease/(increase) in loans held for sale	1,200	(199)
Net (increase)/decrease in other assets	(95)	393
Net decrease in other liabilities	(148)	(339)
Net cash provided by operating activities	2,582	908
<b>Cash Flows from Investing Activities</b>		
Proceeds from maturities, calls, and paydowns of securities available for sale	4,672	5,431
Proceeds from sales of securities available for sale	529	4,195
Purchases of securities available for sale	(6,744)	(3,097)
Net increase in loans, including purchases of loans	(4,525)	(4,390)
Proceeds from sales of loans	730	1,572
Capital expenditures	(104)	(168)
Payments related to acquisitions, including contingent consideration	—	(13)
Proceeds from the sale of other real estate owned and other assets	403	427
Net cash (used in)/provided by investing activities	(5,039)	3,957
<b>Cash Flows from Financing Activities</b>		
Net decrease in total deposits	(3,433)	(696)
Net increase/(decrease) in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	1,493	(2,645)
Proceeds from the issuance of long-term debt	747	4,000
Repayment of long-term debt	(77)	(4,359)
Repurchase of common stock	(100)	—
Common and preferred dividends paid	(162)	(89)
Stock option activity	18	22
Net cash used in financing activities	(1,514)	(3,767)
Net (decrease)/increase in cash and cash equivalents	(3,971)	1,098
Cash and cash equivalents at beginning of period	8,257	4,509
Cash and cash equivalents at end of period	\$4,286	\$5,607
<b>Supplemental Disclosures:</b>		
Loans transferred from loans held for sale to loans	\$28	\$34
Loans transferred from loans to loans held for sale	200	3,112
Loans transferred from loans and loans held for sale to other real estate owned	197	304

See Notes to Consolidated Financial Statements (unaudited).



Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

These financial statements should be read in conjunction with the Company's 2012 Annual Report on Form 10-K. There have been no significant changes to the Company's accounting policies as disclosed in the Company's 2012 Annual Report on Form 10-K.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

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

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

In March 2013, the FASB issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force)." The ASU requires additional disclosures about joint and several liability arrangements and requires the Company to measure obligations resulting from joint and several liability arrangements as the sum of the amount the Company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the Company expects to pay on behalf of its co-obligors. The ASU is effective for the fiscal years and interim periods beginning after December 15, 2013. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

In June 2013, the FASB issued ASU 2013-08, "Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements." The ASU clarifies the characteristics of an investment company and requires an investment company to measure noncontrolling ownership interests in other investment



companies at fair value rather than using the equity method of accounting. The ASU is effective for the fiscal years and interim periods beginning after December 15, 2013. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

In July 2013, the FASB issued ASU 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the Emerging Issues Task Force)." The ASU permits the Fed Funds Effective Swap Rate (OIS) to be used as a benchmark interest rate for hedge accounting purposes, in addition to U.S. Treasury rates, and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The ASU was effective prospectively for qualifying new or

## Notes to Consolidated Financial Statements (Unaudited), continued

redesignated hedging relationships entered into on or after July 17, 2013. The ASU has no impact on the Company's current hedging relationships and, thus, no impact on the Company's financial position, results of operations, or EPS.

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

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

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

(Dollars in millions)	September 30, 2013	December 31, 2012
Fed funds	\$97	\$29
Securities borrowed	241	155
Resell agreements	884	917
Total fed funds sold and securities borrowed or purchased under agreements to resell	\$1,222	\$1,101

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which securities will be subsequently resold. Securities borrowed are primarily collateralized by corporate securities. The Company takes possession of all securities 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. The total market value of the collateral held was \$1.1 billion at both September 30, 2013 and December 31, 2012, of which \$263 million and \$246 million was repledged, respectively.

The Company has also pledged \$764 million and \$727 million of trading assets to secure \$756 million and \$703 million of repurchase agreements at September 30, 2013 and December 31, 2012, 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 11, "Derivative Financial Instruments." Securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by a MRA. Under the terms of the MRA, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers

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

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Notes to Consolidated Financial Statements (Unaudited), continued

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, 2013 and December 31, 2012:

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
<b>September 30, 2013</b>					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,125	\$—	\$1,125	<sup>1, 2</sup> \$1,117	\$8
Financial liabilities:					
Securities sold under agreements to repurchase	1,574	—	1,574	<sup>1</sup> 1,574	—
<b>December 31, 2012</b>					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,072	\$—	\$1,072	<sup>1, 2</sup> \$1,069	\$3
Financial liabilities:					
Securities sold under agreements to repurchase	1,574	—	1,574	<sup>1</sup> 1,574	—

<sup>1</sup> None of the Company's repurchase and reverse repurchase transactions met the right of setoff criteria at September 30, 2013 and December 31, 2012.

<sup>2</sup> Excludes \$97 million and \$29 million of Fed funds sold which are not subject to a master netting agreement at September 30, 2013 and December 31, 2012, respectively.

NOTE 3 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

(Dollars in millions)	September 30, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$792	\$7	\$28	\$771
Federal agency securities	2,167	53	49	2,171
U.S. states and political subdivisions	239	8	2	245
MBS - agency	18,223	449	314	18,358
MBS - private	167	1	2	166
ABS	95	2	1	96
Corporate and other debt securities	40	3	—	43
Other equity securities <sup>1</sup>	775	1	—	776
Total securities AFS	\$22,498	\$524	\$396	\$22,626
<b>December 31, 2012</b>				
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$212	\$10	\$—	\$222
Federal agency securities	1,987	85	3	2,069
U.S. states and political subdivisions	310	15	5	320

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MBS - agency	17,416	756	3	18,169
MBS - private	205	4	—	209
ABS	214	5	3	216
Corporate and other debt securities	42	4	—	46
Other equity securities <sup>1</sup>	701	1	—	702
Total securities AFS				