

SUNTRUST BANKS INC
Form 10-Q
August 06, 2014

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 June 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
(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

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

(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 ✓ 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 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 ✓

At July 31, 2014, 530,936,304 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.
Agreements — Equity forward agreements.
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 that was filed with the SEC on July 3, 2014, 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.
IRS — Internal Revenue Service.
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.
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.
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.
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.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included.

Operating results for the three and six months ended June 30, 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 June 30		Six Months Ended June 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	\$1,161	\$1,157	\$2,313	\$2,326
Interest and fees on loans held for sale	17	29	32	60
Interest and dividends on securities available for sale	149	143	302	286
Trading account interest and other	19	18	36	34
Total interest income	1,346	1,347	2,683	2,706
Interest Expense				
Interest on deposits	61	75	126	154
Interest on long-term debt	66	53	124	104
Interest on other borrowings	10	8	19	16
Total interest expense	137	136	269	274
Net interest income	1,209	1,211	2,414	2,432
Provision for credit losses	73	146	175	358
Net interest income after provision for credit losses	1,136	1,065	2,239	2,074
Noninterest Income				
Service charges on deposit accounts	160	164	314	324
Other charges and fees	91	97	179	186
Card fees	82	78	158	154
Trust and investment management income	116	130	247	254
Retail investment services	76	69	147	130
Investment banking income	119	93	207	161
Trading income	47	49	96	91
Mortgage servicing related income	45	1	99	39
Mortgage production related income	52	133	95	292
Gain on sale of subsidiary	105	—	105	—
Net securities (losses)/gains ¹	(1	) —	(2	) 2
Other noninterest income	65	44	103	88
Total noninterest income	957	858	1,748	1,721
Noninterest Expense				
Employee compensation	659	635	1,319	1,246
Employee benefits	104	102	244	250
Outside processing and software	181	187	351	365
Operating losses	218	72	239	111
Net occupancy expense	83	86	169	175
Equipment expense	42	46	86	91
Regulatory assessments	40	41	80	95
Marketing and customer development	30	31	56	61
Credit and collection services	23	52	46	85
Amortization of intangible assets	4	6	7	12
Other noninterest expense ²	133	129	277	249

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Total noninterest expense	1,517	1,387	2,874	2,740
Income before provision for income taxes	576	536	1,113	1,055
Provision for income taxes ²	173	156	298	317
Net income including income attributable to noncontrolling interest	403	380	815	738
Net income attributable to noncontrolling interest	4	3	11	9
Net income	\$399	\$377	\$804	\$729
Net income available to common shareholders	\$387	\$365	\$780	\$705
Net income per average common share:				
Diluted	\$0.72	\$0.68	\$1.45	\$1.31
Basic	0.73	0.68	1.47	1.32
Dividends declared per common share	0.20	0.10	0.30	0.15
Average common shares - diluted	535,486	539,763	536,234	539,812
Average common shares - basic	529,764	535,172	530,459	535,425

¹ Total OTTI was \$0 for the three months ended June 30, 2014 and 2013. Of total OTTI, losses of \$1 million and \$0 were recognized in earnings, and gains of \$1 million and \$0 were recognized as non-credit-related OTTI in OCI for the three months ended June 30, 2014 and 2013, respectively. Total OTTI was \$0 for the six months ended June 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 six months ended June 30, 2014 and 2013.

² Amortization expense related to qualified affordable housing investment costs is recognized in provision 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/(Loss)

(Dollars in millions) (Unaudited)	Three Months Ended June 30		Six Months Ended June 30		
	2014	2013	2014	2013	
Net income	\$399	\$377	\$804	\$729	
Components of other comprehensive income/(loss):					
Change in net unrealized gains/(losses) on securities, net of tax of \$102, (\$223), \$165, and (\$265), respectively	175	(382) 284	(455)
Change in net unrealized losses on derivatives, net of tax of (\$21), (\$54), (\$50), and (\$96), respectively	(36) (91) (86) (163)
Change related to employee benefit plans, net of tax of \$1, \$3, \$19, and \$15, respectively	2	5	32	26	
Total other comprehensive income/(loss)	141	(468) 230	(592)
Total comprehensive income/(loss)	\$540	(\$91	) \$1,034	\$137

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

	June 30, 2014	December 31, 2013
(Dollars in millions and shares in thousands, except per share data) (Unaudited)		
Assets		
Cash and due from banks	\$5,681	\$4,258
Federal funds sold and securities borrowed or purchased under agreements to resell	1,156	983
Interest-bearing deposits in other banks	22	22
Cash and cash equivalents	6,859	5,263
Trading assets and derivatives (includes encumbered securities pledged against repurchase agreements of \$814 and \$731 at June 30, 2014 and December 31, 2013, respectively)	5,141	5,040
Securities available for sale	24,015	22,542
Loans held for sale ¹ (\$1,353 and \$1,378 at fair value at June 30, 2014 and December 31, 2013, respectively)	4,046	1,699
Loans ² (\$292 and \$302 at fair value at June 30, 2014 and December 31, 2013, respectively)	129,744	127,877
Allowance for loan and lease losses	(2,003)	(2,044)
Net loans	127,741	125,833
Premises and equipment	1,518	1,565
Goodwill	6,337	6,369
Other intangible assets (MSRs at fair value: \$1,259 and \$1,300 at June 30, 2014 and December 31, 2013, respectively)	1,277	1,334
Other real estate owned	136	170
Other assets	5,489	5,520
Total assets	\$182,559	\$175,335
Liabilities and Shareholders' Equity		
Noninterest-bearing deposits	\$40,891	\$38,800
Interest-bearing deposits (CDs at fair value: \$240 and \$764 at June 30, 2014 and December 31, 2013, respectively)	92,394	90,959
Total deposits	133,285	129,759
Funds purchased	1,053	1,192
Securities sold under agreements to repurchase	2,192	1,759
Other short-term borrowings	5,870	5,788
Long-term debt ³ (\$1,311 and \$1,556 at fair value at June 30, 2014 and December 31, 2013, respectively)	13,155	10,700
Trading liabilities and derivatives	1,190	1,181
Other liabilities	3,683	3,534
Total liabilities	160,428	153,913
Preferred stock, no par value	725	725
Common stock, \$1.00 par value	550	550
Additional paid in capital	9,085	9,115
Retained earnings	12,560	11,936
Treasury stock, at cost, and other ⁴	(730)	(615)
Accumulated other comprehensive loss, net of tax	(59)	(289)
Total shareholders' equity	22,131	21,422
Total liabilities and shareholders' equity	\$182,559	\$175,335
Common shares outstanding		
	532,800	536,097
Common shares authorized		
	750,000	750,000

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Preferred shares outstanding	7	7
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	17,121	13,824
¹ Includes loans held for sale, at fair value, of consolidated VIEs	\$—	\$261
² Includes loans of consolidated VIEs	307	327
³ Includes debt of consolidated VIEs (\$0 and \$256 at fair value at June 30, 2014 and December 31, 2013, respectively)	322	597
⁴ Includes noncontrolling interest	107	119

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 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	—	—	—	—	729	—	—	729
Other comprehensive loss	—	—	—	—	—	—	(592)	(592)
Change in noncontrolling interest	—	—	—	—	—	1	—	1
Common stock dividends, \$0.15 per share	—	—	—	—	(81)	—	—	(81)
Preferred stock dividends ³	—	—	—	—	(18)	—	—	(18)
Acquisition of treasury stock	—	(2)	—	—	—	(50)	—	(50)
Exercise of stock options and stock compensation expense	—	1	—	(15)	—	25	—	10
Restricted stock activity	—	1	—	(33)	—	37	—	4
Amortization of restricted stock compensation	—	—	—	—	—	15	—	15
Issuance of stock for employee benefit plans and other	—	—	—	—	—	4	—	4
Balance, June 30, 2013	\$725	539	\$550	\$9,126	\$11,447	(\$558)	(\$283)	\$21,007
Balance, January 1, 2014	\$725	536	\$550	\$9,115	\$11,936	(\$615)	(\$289)	\$21,422
Net income	—	—	—	—	804	—	—	804
Other comprehensive income	—	—	—	—	—	—	230	230
Change in noncontrolling interest	—	—	—	—	—	4	—	4
Common stock dividends, \$0.30 per share	—	—	—	—	(160)	—	—	(160)
Preferred stock dividends ³	—	—	—	—	(19)	—	—	(19)
Acquisition of treasury stock	—	(3)	—	—	—	(133)	—	(133)
Exercise of stock options and stock compensation expense	—	—	—	(13)	—	10	—	(3)
Restricted stock activity	—	—	—	6	(1)	3	—	8
Amortization of restricted stock compensation	—	—	—	—	—	14	—	14
Change in equity related to the sale of subsidiary	—	—	—	(23)	—	(16)	—	(39)
Issuance of stock for employee benefit plans and other	—	—	—	—	—	3	—	3
Balance, June 30, 2014	\$725	533	\$550	\$9,085	\$12,560	(\$730)	(\$59)	\$22,131

¹ At June 30, 2014, includes (\$802) million for treasury stock, (\$35) million for compensation element of restricted stock, and \$107 million for noncontrolling interest.

At June 30, 2013, includes (\$605) million for treasury stock, (\$68) million for compensation element of restricted stock, and \$115 million for noncontrolling interest.

² At June 30, 2014, includes \$206 million in unrealized net gains on AFS securities, \$193 million in unrealized net gains on derivative financial instruments, and (\$458) million related to employee benefit plans.

At June 30, 2013, includes \$65 million in unrealized net gains on AFS securities, \$369 million in unrealized net gains on derivative financial instruments, and (\$717) million related to employee benefit plans.

³ For the six months ended June 30, 2014, dividends were \$2,022 per share for both Perpetual Preferred Stock Series A and B and \$2,938 per share for Perpetual Preferred Stock Series E.

For the six months ended June 30, 2013, dividends were \$2,022 per share for both Perpetual Preferred Stock Series A and B and \$2,856 per share for Perpetual Preferred Stock Series E.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.

Consolidated Statements of Cash Flows

(Dollars in millions) (Unaudited)	Six Months Ended June 30	
	2014	2013
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	\$815	\$738
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of subsidiary	(105) —
Depreciation, amortization, and accretion	328	365
Origination of mortgage servicing rights	(68	) (203
Provisions for credit losses and foreclosed property	190	389
Mortgage repurchase provision	10	29
Stock option compensation and amortization of restricted stock compensation	6	16
Excess tax benefits from stock-based compensation	(4) —
Net securities losses/(gains)	2	(2
Net gain on sale of loans held for sale, loans, and other assets	(173	) (350
Net decrease in loans held for sale	335	141
Net increase in other assets	(162	) (274
Net decrease in other liabilities	(26	) (125
Net cash provided by operating activities	1,148	724
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	1,730	3,233
Proceeds from sales of securities available for sale	69	497
Purchases of securities available for sale	(2,949	) (5,828
Proceeds from sales of trading securities	59	—
Net increase in loans, including purchases of loans	(5,612	) (1,855
Proceeds from sales of loans	651	630
Purchases of mortgage servicing rights	(76) —
Capital expenditures	(60	) (43
Payments related to acquisitions, including contingent consideration	(8) —
Proceeds from sale of subsidiary	193	—
Proceeds from the sale of other real estate owned and other assets	187	249
Net cash used in investing activities	(5,816	) (3,117
Cash Flows from Financing Activities		
Net increase/(decrease) in total deposits	3,526	(4,697
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	376	2,620
Proceeds from long-term debt	2,704	609
Repayments of long-term debt	(39	) (99
Repurchase of common stock	(133	) (50
Common and preferred dividends paid	(179	) (99
Stock option activity	9	11
Net cash provided by/(used in) financing activities	6,264	(1,705
Net increase/(decrease) in cash and cash equivalents	1,596	(4,098
Cash and cash equivalents at beginning of period	5,263	8,257
Cash and cash equivalents at end of period	\$6,859	\$4,159

Supplemental Disclosures:

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Loans transferred from loans held for sale to loans	\$20	\$17
Loans transferred from loans to loans held for sale	2,821	144
Loans transferred from loans and loans held for sale to other real estate owned	80	134
Non-cash impact of the deconsolidation of CLO	282	—

See Notes to Consolidated Financial Statements (unaudited).

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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 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 adopted the ASU at January 1, 2014 and the adoption did not have an 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 fiscal years and interim periods beginning after December 15, 2013. The Company adopted the ASU at January 1, 2014 and the adoption did not have an impact on the Company's financial position, results of operations, or EPS.

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 for 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. During the three and six months ended June 30, 2014, \$14 million and \$27 million, respectively, of

investment amortization expense has been recognized on a net basis with tax credits received as a component of income tax expense. 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 six months ended June 30, 2013, \$10 million and \$20 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.

Notes to Consolidated Financial Statements (Unaudited), continued

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 update clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon 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 update 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 adopted the ASU upon issuance for prospective transactions. The adoption did not 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 guidance in this update 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 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 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The amendments in this update change the accounting for repurchase-to-maturity transactions 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. 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 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 amendments in this update require 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. Early adoption is permitted. 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.

NOTE 2 - ACQUISITIONS/DISPOSITIONS

(Dollars in millions)	Date	Cash Received	Goodwill	Other Intangibles	Gain
2014					
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 pretax gain of \$105 million in connection with the sale, net of transaction-related expenses.

Notes to Consolidated Financial Statements (Unaudited), continued

The Company's results for the six months ended June 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. Income before provision for income taxes related to RidgeWorth, excluding the gain on sale, included \$20 million attributable to the Company and \$2 million attributable to noncontrolling interests during the six months ended June 30, 2014.

The Company's results for the six months ended June 30, 2013, included income before provision for income taxes related to RidgeWorth of \$32 million, comprised of \$96 million of revenue and \$64 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. In all periods presented, 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 six months ended June 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)	June 30, 2014	December 31, 2013
Fed funds sold	\$103	\$75
Securities borrowed or purchased	334	184
Resell agreements	719	724
Total fed funds sold and securities borrowed or purchased under agreements to resell	\$1,156	\$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 June 30, 2014 and December 31, 2013, the total market value of collateral held was \$1.1 billion and \$913 million, of which \$227 million and \$234 million was repledged, respectively.

At June 30, 2014 and December 31, 2013, the Company had \$814 million and \$731 million of trading assets pledged to secure \$819 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. 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.

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 June 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
June 30, 2014						
Financial assets:						
Securities borrowed or purchased under agreements to resell	\$1,053	\$—	\$1,053	^{1,2}	\$1,040	\$13
Financial liabilities:						
Securities sold under agreements to repurchase	2,192	—	2,192	¹	2,192	—
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 and reverse repurchase transactions met the right of setoff criteria for net balance sheet presentation at June 30, 2014 and December 31, 2013.

² Excludes \$103 million and \$75 million of Fed funds sold which are not subject to a master netting agreement at June 30, 2014 and December 31, 2013, respectively.

NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

(Dollars in millions)	June 30, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$1,581	\$10	\$17	\$1,574
Federal agency securities	1,005	17	32	990
U.S. states and political subdivisions	243	8	—	251
MBS - agency	19,692	555	182	20,065
MBS - private	136	4	—	140
ABS	20	2	—	22
Corporate and other debt securities	38	3	—	41
Other equity securities ¹	931	1	—	932
Total securities AFS	\$23,646	\$600	\$231	\$24,015
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

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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 June 30, 2014, other equity securities comprised of the following: \$376 million in FHLB of Atlanta stock, \$402 million in Federal Reserve Bank stock, \$153 million in mutual fund investments, and \$1 million of other. At December 31, 2013, other equity securities comprised of 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.

Notes to Consolidated Financial Statements (Unaudited), continued

The following table presents interest and dividends on securities AFS:

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Taxable interest	\$138	\$133	\$279	\$265
Tax-exempt interest	2	3	5	5
Dividends	9	7	18	16
Total interest and dividends	\$149	\$143	\$302	\$286

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of \$10.8 billion and \$11.0 billion at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, \$625 million of securities AFS 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 June 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.

(Dollars in millions)	Distribution of Maturities				Total	
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years		
Amortized Cost:						
U.S. Treasury securities	\$—	\$892	\$689	\$—	\$1,581	
Federal agency securities	71	247	543	144	1,005	
U.S. states and political subdivisions	65	53	102	23	243	
MBS - agency	1,995	6,727	7,384	3,586	19,692	
MBS - private	—	136	—	—	136	
ABS	15	4	1	—	20	
Corporate and other debt securities	2	20	16	—	38	
Total debt securities	\$2,148	\$8,079	\$8,735	\$3,753	\$22,715	
Fair Value:						
U.S. Treasury securities	\$—	\$900	\$674	\$—	\$1,574	
Federal agency securities	71	259	518	142	990	
U.S. states and political subdivisions	66	56	104	25	251	
MBS - agency	2,114	6,912	7,522	3,517	20,065	
MBS - private	—	140	—	—	140	
ABS	14	6	2	—	22	
Corporate and other debt securities	2	22	17	—	41	
Total debt securities	\$2,267	\$8,295	\$8,837	\$3,684	\$23,083	
Weighted average yield ¹	2.71	% 2.44	% 2.86	% 2.92	% 2.71	%

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

Securities in an Unrealized Loss Position

The Company held certain investment securities where amortized cost exceeded fair market value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses

as the market price of securities fluctuates. At June 30, 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. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies described in the Company's 2013 Annual Report on Form 10-K.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	June 30, 2014					
	Less than twelve months		Twelve months or longer		Total	Unrealized Losses ²
	Fair Value	Unrealized Losses ²	Fair Value	Unrealized Losses ²	Fair Value	
Temporarily impaired securities:						
U.S. Treasury securities	\$99	\$—	\$575	\$17	\$674	\$17
Federal agency securities	3	—	615	32	618	32
MBS - agency	819	4	5,946	178	6,765	182
ABS	—	—	14	—	14	—
Total temporarily impaired securities	921	4	7,150	227	8,071	231
OTTI securities ¹ :						
MBS - private	—	—	46	—	46	—
Total OTTI securities	—	—	46	—	46	—
Total impaired securities	\$921	\$4	\$7,196	\$227	\$8,117	\$231

(Dollars in millions)	December 31, 2013					
	Less than twelve months		Twelve months or longer		Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
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 June 30, 2014, unrealized losses on securities that have been in a temporarily impaired position for longer than twelve months included U.S. Treasury securities, federal agency securities, agency MBS, and one ABS collateralized by 2004 vintage home equity loans. Unrealized losses on U.S. Treasury securities, 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 securities that have been OTTI 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 and prior periods.

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

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Gross realized gains	\$—	\$1	\$—	\$4
Gross realized losses	—	(1)	(1)	(1)
OTTI	(1)	—	(1)	(1)
Net securities(losses)/gains	(\$1)	\$—	(\$2)	\$2

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Notes to Consolidated Financial Statements (Unaudited), continued

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 three and six months ended June 30, 2014, all OTTI recognized in earnings related to one private MBS that has underlying collateral of residential mortgage loans securitized in 2007.

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

The securities that gave rise to credit impairments recognized during the three and six months ended June 30, 2014, consisted of private MBS with a fair value of approximately \$19 million at June 30, 2014. The securities that gave rise to credit impairments recognized during the three and six months ended June 30, 2013, consisted of private MBS and ABS with a combined fair value of approximately \$2 million at June 30, 2013. Credit impairments recognized on securities during the three and six months ended June 30, 2014 and 2013, are shown below.

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
OTTI ¹	\$—	\$—	\$—	\$—
Portion of gains recognized in OCI (before taxes)	1	—	1	1
Net impairment losses recognized in earnings	\$1	\$—	\$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 six months ended June 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.

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

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

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	2014 ¹	2013
Default rate	2%	6 - 9%
Prepayment rate	16%	7 - 8%
Loss severity	46%	61 - 74%

¹ During the six months ended June 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)	June 30, 2014	December 31, 2013
Commercial loans:		
C&I	\$61,337	\$57,974
CRE	6,105	5,481
Commercial construction	1,096	855
Total commercial loans	68,538	64,310
Residential loans:		
Residential mortgages - guaranteed	661	3,416
Residential mortgages - nonguaranteed ¹	24,173	24,412
Home equity products	14,519	14,809
Residential construction	508	553
Total residential loans	39,861	43,190
Consumer loans:		
Guaranteed student loans	5,420	5,545
Other direct	3,675	2,829
Indirect	11,501	11,272
Credit cards	749	731
Total consumer loans	21,345	20,377
LHFI	\$129,744	\$127,877
LHFS ²	\$4,046	\$1,699

¹ Includes \$292 million and \$302 million of loans carried at fair value at June 30, 2014 and December 31, 2013, respectively.

² Includes \$1.4 billion of LHFS carried at fair value at both June 30, 2014 and December 31, 2013.

At June 30, 2014 and December 31, 2013, the Company had \$57.9 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 June 30, 2014 and 2013, the Company transferred \$2.7 billion and \$87 million in LHFI to LHFS, and \$3 million and \$5 million in LHFS to LHFI, respectively. Specifically, \$2.1 billion of guaranteed residential mortgages were transferred to LHFS during the three months ended June 30, 2014, in anticipation of the sale of these loans on a servicing retained basis in the third quarter. Additionally, during the three months ended June 30, 2014 and 2013, the Company sold \$534 million and \$159 million in loans and leases for gains of \$22 million and \$3 million, respectively.

During the six months ended June 30, 2014 and 2013, the Company transferred \$2.8 billion and \$144 million in LHFI to LHFS, and \$20 million and \$17 million in LHFS to LHFI, respectively. Additionally, during the six months ended June 30, 2014 and 2013, the Company sold \$619 million and \$662 million in loans and leases for gains of \$31 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/analysis, and qualitative assessments.

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

Notes to Consolidated Financial Statements (Unaudited), continued

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.

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

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company's formal underwriting process, and refreshed FICO scores are obtained by the Company at least quarterly. For government-guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At June 30, 2014 and December 31, 2013, 27% 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 \$2.1 billion in accruing current guaranteed residential loan which were transferred to LHFS in June, 2014. At June 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:

(Dollars in millions)	Commercial Loans					
	C&I		CRE		Commercial construction	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Credit rating:						
Pass	\$59,854	\$56,443	\$5,902	\$5,245	\$1,059	\$798
Criticized accruing	1,284	1,335	165	197	27	45
Criticized nonaccruing	199	196	38	39	10	12
Total	\$61,337	\$57,974	\$6,105	\$5,481	\$1,096	\$855
	Residential Loans ¹					
	Residential mortgages - nonguaranteed		Home equity products		Residential construction	
(Dollars in millions)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Current FICO score range:						
700 and above	\$19,038	\$19,100	\$11,558	\$11,661	\$385	\$423
620 - 699	3,603	3,652	2,087	2,186	89	90
Below 620 ²	1,532	1,660	874	962	34	40
Total	\$24,173	\$24,412	\$14,519	\$14,809	\$508	\$553
	Consumer Loans ³					
	Other direct		Indirect		Credit cards	
(Dollars in millions)	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Current FICO score range:						
700 and above	\$3,161	\$2,370	\$8,554	\$8,420	\$528	\$512
620 - 699	453	397	2,316	2,228	178	176
Below 620 ²	61	62	631	624	43	43
Total	\$3,675	\$2,829	\$11,501	\$11,272	\$749	\$731

¹ Excludes \$661 million and \$3.4 billion at June 30, 2014 and December 31, 2013, respectively, of guaranteed residential loans. At June 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 \$5.4 billion and \$5.5 billion of guaranteed student loans at June 30, 2014 and December 31, 2013, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	June 30, 2014				Total
	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing ²	
Commercial loans:					
C&I	\$61,085	\$42	\$11	\$199	\$61,337
CRE	6,063	4	—	38	6,105
Commercial construction	1,086	—	—	10	1,096
Total commercial loans	68,234	46	11	247	68,538
Residential loans:					
Residential mortgages - guaranteed	181	35	445	—	661
Residential mortgages - nonguaranteed ¹	23,642	112	14	405	24,173
Home equity products	14,224	104	—	191	14,519
Residential construction	457	4	1	46	508
Total residential loans	38,504	255	460	642	39,861
Consumer loans:					
Guaranteed student loans	4,430	424	566	—	5,420
Other direct	3,648	21	2	4	3,675
Indirect	11,432	62	1	6	11,501
Credit cards	738	6	5	—	749
Total consumer loans	20,248	513	574	10	21,345
Total LHF	\$126,986	\$814	\$1,045	\$899	\$129,744

¹ Includes \$292 million of loans carried at fair value, the majority of which were accruing current.

² Nonaccruing loans past due 90 days or more totaled \$567 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.

(Dollars in millions)	December 31, 2013				Total
	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing ²	
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

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Credit cards	718	7	6	—	731
Total consumer loans	19,185	561	619	12	20,377
Total LHF1	\$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.

Notes to Consolidated Financial Statements (Unaudited), continued

Impaired Loans

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

(Dollars in millions)	June 30, 2014			December 31, 2013		
	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	\$87	\$66	\$—	\$81	\$56	\$—
CRE	16	14	—	61	60	—
Total commercial loans	103	80	—	142	116	—
Residential mortgages - nonguaranteed	723	452	—	740	442	—
Impaired loans with an allowance recorded:						
Commercial loans:						
C&I	57	49	4	51	49	10
CRE	14	8	—	8	3	—
Commercial construction	6	2	—	6	3	—
Total commercial loans	77	59	4	65	55	10
Residential loans:						
Residential mortgages - nonguaranteed	1,486	1,467	238	1,617	1,609	226
Home equity products	702	632	88	710	638	96
Residential construction	211	172	23	241	189	23
Total residential loans	2,399	2,271	349	2,568	2,436	345
Consumer loans:						
Other direct	14	14	1	14	14	—
Indirect	97	97	5	83	83	5
Credit cards	10	10	2	13	13	3
Total consumer loans	121	121	8	110	110	8
Total impaired loans	\$3,423	\$2,983	\$361	\$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 \$2.6 billion and \$2.7 billion of accruing TDRs at amortized cost, at June 30, 2014 and December 31, 2013, respectively, of which 96% 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

(Dollars in millions)	Three Months Ended June 30				Six Months Ended June 30			
	2014		2013		2014		2013	
	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	\$72	\$—	\$70	\$1	\$76	\$1	\$63	\$1
CRE	15	—	9	—	15	—	8	—
Commercial construction	—	—	47	—	—	—	36	1
Total commercial loans	87	—	126	1	91	1	107	2
Residential mortgages - nonguaranteed	463	5	448	4	470	9	461	8
Impaired loans with an allowance recorded:								
Commercial loans:								
C&I	52	—	80	1	54	—	75	1
CRE	11	—	3	—	11	—	2	—
Commercial construction	3	—	8	—	3	—	7	—
Total commercial loans	66	—	91	1	68	—	84	1
Residential loans:								
Residential mortgages - nonguaranteed	1,456	20	1,554	23	1,444	41	1,547	41
Home equity products	651	7	648	5	648	13	652	10
Residential construction	179	2	205	3	178	4	206	5
Total residential loans	2,286	29	2,407	31	2,270	58	2,405	56
Consumer loans:								
Other direct	14	—	15	—	14	—	15	—
Indirect	105	1	72	1	103	3	74	2
Credit cards	11	—	17	1	11	—	19	1
Total consumer loans	130	1	104	2	128	3	108	3
Total impaired loans	\$3,032	\$35	\$3,176	\$39	\$3,027	\$71	\$3,165	\$70

¹ Of the interest income recognized during the three and six months ended June 30, 2014, cash basis interest income was less than \$1 million and \$2 million, respectively.

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

Notes to Consolidated Financial Statements (Unaudited), continued

NPAs are shown in the following table:

(Dollars in millions)	June 30, 2014	December 31, 2013
Nonaccrual/NPLs:		
Commercial loans:		
C&I	\$199	\$196
CRE	38	39
Commercial construction	10	12
Residential loans:		
Residential mortgages - nonguaranteed	405	441
Home equity products	191	210
Residential construction	46	61
Consumer loans:		
Other direct	4	5
Indirect	6	7
Total nonaccrual/NPLs ¹	899	971
OREO ²	136	170
Other repossessed assets	6	7
Nonperforming LHFS	—	17
Total NPAs	\$1,041	\$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 \$79 million and \$88 million at June 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 both June 30, 2014 and December 31, 2013, the Company had \$8 million in commitments to lend additional funds to debtors whose terms have been modified in a TDR.

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	Three Months Ended June 30, 2014 ¹				
	Number of Loans Modified	Principal Forgiveness ²	Rate Modification ³	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	27	\$—	\$—	\$12	\$12
CRE	2	3	—	—	3
Residential loans:					
Residential mortgages - nonguaranteed	365	1	43	11	55
Home equity products	471	—	2	20	22
Residential construction	4	—	1	—	1
Consumer loans:					
Other direct	21	—	—	—	—
Indirect	712	—	—	14	14
Credit cards	130	—	—	—	—
Total TDRs	1,732	\$4	\$46	\$57	\$107

(Dollars in millions)	Six Months Ended June 30, 2014 ¹				
	Number of Loans Modified	Principal Forgiveness ²	Rate Modification ³	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	43	\$—	\$—	\$14	\$14
CRE	4	3	—	3	6
Residential loans:					
Residential mortgages - nonguaranteed	678	1	86	28	115
Home equity products	904	—	5	38	43
Residential construction	10	—	1	—	1
Consumer loans:					
Other direct	38	—	—	1	1
Indirect	1,551	—	—	30	30
Credit cards	227	—	1	—	1
Total TDRs	3,455	\$4	\$93	\$114	\$211

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

² Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and six months ended June 30, 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 six months ended June 30, 2014.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended June 30, 2013 ¹				
	Number of Loans Modified	Principal Forgiveness ²	Rate Modification ³	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	29	\$18	\$—	\$15	\$33
CRE	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	637	—	36	53	89
Home equity products	755	—	17	31	48
Residential construction	104	—	7	2	9
Consumer loans:					
Other direct	32	—	—	1	1
Indirect	831	—	—	16	16
Credit cards	155	—	1	—	1
Total TDRs	2,544	\$18	\$61	\$118	\$197

(Dollars in millions)	Six Months Ended June 30, 2013 ¹				
	Number of Loans Modified	Principal Forgiveness ²	Rate Modification ³	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	96	\$18	\$2	\$49	\$69
CRE	5	—	4	1	5
Residential loans:					
Residential mortgages - nonguaranteed	913	—	61	70	131
Home equity products	1,438	—	36	48	84
Residential construction	217	—	18	4	22
Consumer loans:					
Other direct	80	—	—	3	3
Indirect	1,734	—	—	33	33
Credit cards	386	—	2	—	2
Total TDRs	4,869	\$18	\$123	\$208	\$349

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

² Restructured loans which had forgiveness of amounts contractually due under the terms of the loan typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and six months ended June 30, 2013, was \$2 million.

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
C&I	22	\$4	47	\$5
Residential loans:				
Residential mortgages	40	6	89	10
Home equity products	24	2	47	3
Residential construction	2	—	6	—
Consumer loans:				
Other direct	—	—	5	—
Indirect	46	—	89	1
Credit cards	63	1	83	1
Total TDRs	197	\$13	366	\$20

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

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

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 \$1.2 billion and \$1.0 billion at June 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 June 30, 2014, the Company owned \$39.9 billion in residential loans, representing 31% 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 June 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 \$11.9 billion and \$12.4 billion of mortgage loans at June 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, \$4.7 billion and \$5.5 billion, respectively, were interest only loans, primarily with a ten year interest only period. Approximately \$1.0 billion and \$1.1 billion of those interest only loans at June 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 June 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:

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Balance at beginning of period	\$2,086	\$2,205	\$2,094	\$2,219
Provision for loan losses	76	152	182	356
(Benefit)/provision for unfunded commitments	(3	) (6	) (7	) 2
Loan charge-offs	(158	) (233	) (309	) (506
Loan recoveries	45	54	86	101
Balance at end of period	\$2,046	\$2,172	\$2,046	\$2,172

Components:

ALLL		\$2,003	\$2,125
Unfunded commitments reserve ¹		43	47
Allowance for credit losses		\$2,046	\$2,172

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	Three Months Ended June 30, 2014			
	Commercial	Residential	Consumer	Total
Balance at beginning of period	\$966	\$910	\$164	\$2,040
Provision for loan losses	18	32	26	76
Loan charge-offs	(38)	(90)	(30)	(158)
Loan recoveries	12	23	10	45
Balance at end of period	\$958	\$875	\$170	\$2,003

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

(Dollars in millions)	Six Months Ended June 30, 2014			
	Commercial	Residential	Consumer	Total
Balance at beginning of period	\$946	\$930	\$168	\$2,044
Provision for loan losses	57	80	45	182
Loan charge-offs	(71)	(175)	(63)	(309)
Loan recoveries	26	40	20	86
Balance at end of period	\$958	\$875	\$170	\$2,003

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

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:

(Dollars in millions)	June 30, 2014							
	Commercial		Residential		Consumer		Total	
	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	\$139	\$4	\$2,723	\$349	\$121	\$8	\$2,983	\$361
Collectively evaluated	68,399	954	36,846	526	21,224	162	126,469	1,642
Total evaluated	68,538	958	39,569	875	21,345	170	129,452	2,003
LHFI at fair value	—	—	292	—	—	—	292	—
Total LHFI	\$68,538	\$958	\$39,861	\$875	\$21,345	\$170	\$129,744	\$2,003

(Dollars in millions)	December 31, 2013							
	Commercial		Residential		Consumer		Total	
	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 would more likely than not reduce the fair value of a reporting unit below its carrying amount or indicate that it is more likely than not that a goodwill impairment exists when the carrying amount of a reporting unit is zero or negative. The Company monitored events and circumstances during the first six months of 2014 and did not observe any factors that would more likely than not reduce the fair value of a reporting unit below its respective carrying value. Accordingly, goodwill was not tested for impairment during the six months ended June 30, 2014.

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 six months ended June 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 six months ended June 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, June 30, 2014	\$4,262	\$2,075	\$6,337

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Balance, January 1, 2013	\$3,962	\$2,407	\$6,369
Intersegment transfers	300	(300) —
Balance, June 30, 2013	\$4,262	\$2,107	\$6,369

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Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

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

(Dollars in millions)	Core Deposit Intangibles	MSRs - Fair Value	Other	Total
Balance, January 1, 2014	\$4	\$1,300	\$30	\$1,334
Amortization	(3)	—	(4)	(7)
MSRs originated	—	68	—	68
MSRs purchased	—	76	—	76
Changes in fair value:				
Due to changes in inputs and assumptions ¹	—	(107)	—	(107)
Other changes in fair value ²	—	(78)	—	(78)
Sale of RidgeWorth	—	—	(9)	(9)
Balance, June 30, 2014	\$1	\$1,259	\$17	\$1,277
Balance, January 1, 2013	\$17	\$899	\$40	\$956
Amortization	(7)	—	(5)	(12)
MSRs originated	—	203	—	203
Changes in fair value:				
Due to changes in inputs and assumptions ¹	—	250	—	250
Other changes in fair value ²	—	(152)	—	(152)
Sale of MSRs	—	(1)	—	(1)
Balance, June 30, 2013	\$10	\$1,199	\$35	\$1,244

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

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

Mortgage Servicing Rights

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

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and six months ended June 30, 2014 was \$81 million and \$160 million, respectively, and \$77 million and \$153 million for the three and six months ended June 30, 2013, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At June 30, 2014 and December 31, 2013, the total UPB of mortgage loans serviced was \$134.4 billion and \$136.7 billion, respectively. Included in these amounts were \$105.4 billion and \$106.8 billion at June 30, 2014 and December 31, 2013, respectively, of loans serviced for third parties. During the six months ended June 30, 2014 and 2013, the Company sold MSRs, at a price approximating their fair value, on residential loans with a UPB of \$439 million and \$632 million, respectively. The Company purchased MSRs on residential loans with a UPB of \$5.9 billion during the second quarter of 2014; however, only \$460 million of these loans are reflected in the UPB amounts above as the transfer of servicing for the remainder is scheduled for the third quarter of 2014.

The Company determines the fair value of the MSRs using a valuation model that calculates the present value of the estimated future net servicing income. The model incorporates a number of assumptions as MSRs do not trade in an active and open market with readily observable prices. The Company determines fair value using market based prepayment rates, discount rates, and other assumptions that are compared to various sources of market data including

independent third party valuations and industry surveys. Senior management and the STM Valuation Committee review all significant assumptions 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.

Notes to Consolidated Financial Statements (Unaudited), continued

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company's MSR's at June 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. The overall change in MSR's during the six months ended June 30, 2014 was primarily due to a decrease in prevailing interest rates during the period.

(Dollars in millions)	June 30, 2014		December 31, 2013	
Fair value of retained MSR's	\$1,259		\$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	88		74	
Discount rate (annual)	11	%	12	%
Decline in fair value from 10% adverse change	\$59		\$66	
Decline in fair value from 20% adverse change	114		126	
Weighted-average life (in years)	7.0		7.7	
Weighted-average coupon	4.3	%	4.4	%

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Additionally, the sensitivities above do not include the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSR's. 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 six months ended June 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 six months ended June 30, 2014 that changed the Company's sale accounting conclusion in regards to the 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 the transferred assets and, at times, servicing rights and collateral manager fees. If the Company has a VI in the entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE to determine if the Company should consolidate the VIE.

Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement and supplements Note 10, "Certain Transfers of Financial Assets and Variable Interest

Entities," to the Consolidated Financial Statements in the Company's 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 pre-tax net gains of \$61 million and \$124 million, including servicing rights, for the three months ended June 30, 2014 and 2013, respectively and \$105 million and \$281 million for the six months ended June 30,

Notes to Consolidated Financial Statements (Unaudited), continued

2014 and 2013, respectively. These net gains are included within mortgage production related income in the Consolidated Statements of Income. These net gains include the change in value of the loans as a result of changes in interest rates from the time the related IRLCs were issued to the borrowers but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 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 June 30, 2014 and December 31, 2013, the fair value of securities received totaled \$65 million and \$71 million, respectively, and was valued using a third party pricing service.

The Company evaluated these securitization transactions for consolidation under the VIE consolidation guidance. As servicer of the underlying loans, the Company is generally deemed to have power over the securitization. However, if a single party, such as the issuer or the master servicer, effectively controls the servicing activities or has the unilateral ability to terminate the Company as servicer without cause, then that party is deemed to have power over the securitization. In almost all of its securitization transactions, the Company does not have power over the VIE as a result of these rights held by the master servicer. In certain transactions, the Company does have power as the servicer; however, the Company does not also have an obligation to absorb losses or the right to receive benefits that could potentially be significant to the securitization. The absorption of losses and the receipt of benefits would generally manifest itself through the retention of senior or subordinated interests. Total assets at June 30, 2014 and December 31, 2013, of the unconsolidated trusts in which the Company has a VI are \$316 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 its 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 CLOs. The Company currently holds certain securities issued by the CLOs and previously acted as collateral manager for these 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 of the CLO. 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. 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 June 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 as it does not possess the power to direct the activities that most significantly impact the economic performance of the VIE. The Company's preference share exposure was valued at \$5 million and \$3 million at June 30, 2014 and December 31, 2013, respectively. The Company's senior interest exposure was valued at \$22 million and \$26 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014 and December 31, 2013, unconsolidated VIEs that the Company had involvement with had \$780 million and \$1.6 billion of estimated assets, respectively, and \$730 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 (the “Student Loan entity”) should be consolidated. At June 30, 2014 and December 31, 2013, the Company’s Consolidated Balance

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Notes to Consolidated Financial Statements (Unaudited), continued

Sheets reflected \$326 million and \$344 million, respectively, of assets held by the Student Loan entity and \$322 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 occur on the SPE's assets, the SPE has recourse to the federal government as the guarantor up to a maximum guarantee amount of 97%. Losses in excess of the government guarantee reduce the amount of available cash payable to the Company as the owner of the residual interest. To the extent that losses result from a breach of the master servicer's servicing responsibilities, the SPE has recourse to the Company; the SPE may require the Company to repurchase the loan from the SPE at par value. If the breach was caused by the subservicer, the Company has recourse to seek reimbursement from the subservicer up to the guaranteed amount. The Company's maximum exposure to loss related to the SPE is represented by the potential losses resulting from a breach of servicing responsibilities. To date, all loss claims filed with the guarantor that have been denied due to servicing errors have either been cured or reimbursement has been provided to the Company by the subservicer.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The Company determined that it was not the primary beneficiary of any of these VIEs as the Company lacked the power to direct the significant activities of any of the VIEs. During the first quarter of 2014, the Company sold all remaining exposures to these VIEs. For further details on these VIEs 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 certain information related to the Company's asset transfers in which it has continuing economic involvement.

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Cash flows on interests held ¹ :				
Residential Mortgage Loans ²	\$7	\$11	\$10	\$17
Commercial and Corporate Loans	—	—	—	1
CDO Securities	—	1	—	1
Total cash flows on interests held	\$7	\$12	\$10	\$19
Servicing or management fees ¹ :				
Residential Mortgage Loans ²	\$—	\$1	\$1	\$1
Commercial and Corporate Loans	1	2	4	5
Total servicing or management fees	\$1	\$3	\$5	\$6

¹ The transfer activity is related to unconsolidated VIEs.

² Does not include GSE mortgage loan transfers

Notes to Consolidated Financial Statements (Unaudited), continued

Portfolio balances and delinquency balances based on accruing loans 90 days or more past due and all nonaccrual loans at June 30, 2014 and December 31, 2013, and net charge-offs related to managed portfolio loans (both those that are owned or consolidated by the Company and those that have been transferred) for the three and six months ended June 30, 2014 and 2013 are as follows:

(Dollars in millions)	Portfolio Balance ¹		Past Due and Nonaccrual ²		Net Charge-offs			
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	Three Months Ended June 30		Six Months Ended June 30	
					2014	2013	2014	2013
Type of loan:								
Commercial	\$68,538	\$64,310	\$258	\$272	\$26	\$44	\$45	\$89
Residential	39,861	43,190	1,102	1,296	67	119	135	275
Consumer	21,345	20,377	584	631	20	16	43	41
Total loan portfolio	129,744	127,877	1,944	2,199	113	179	223	405
Managed securitized loans:								
Commercial	—	1,617	—	29	—	—	—	—
Residential	99,692	100,695	324	³ 493	³ 3	6	7	14
Total managed loans	\$229,436	\$230,189	\$2,268	\$2,721	\$116	\$185	\$230	\$419

¹ Excludes \$4.0 billion and \$1.7 billion of LHFS at June 30, 2014 and December 31, 2013, respectively.

² Excludes \$1 million and \$17 million of past due LHFS at June 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 June 30, 2014 and December 31, 2013, the Company had \$1.4 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 \$1.4 billion and \$1.5 billion at June 30, 2014 and December 31, 2013, respectively, and the Company had entered into mirror TRS contracts with third parties with the same outstanding notional amounts. At June 30, 2014, the fair values of these TRS assets and liabilities were \$19 million and \$16 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 related partnerships are VIEs. For partnerships where the Company operates strictly as the general partner, the Company consolidates these partnerships on its Consolidated Balance Sheets. As the general partner, the Company

typically guarantees the tax credits due to the limited partner and is responsible for funding construction and operating deficits. At June 30, 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 six months ended June 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 acts only in a limited partnership capacity. The Company has determined that it is not the primary beneficiary of these partnerships and accounts for its interests in accordance with the accounting

Notes to Consolidated Financial Statements (Unaudited), continued

guidance for investments in affordable housing projects. The general partner or an affiliate of the general partner provides guarantees to the limited partner, which protects the Company from losses attributable to operating deficits, construction deficits, and tax credit allocation deficits. Partnership assets of \$1.5 billion in these partnerships were not included in the Consolidated Balance Sheets at both June 30, 2014 and December 31, 2013. The limited partner interests had carrying values of \$270 million and \$252 million at June 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 \$766 million and \$697 million at June 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 \$346 million and \$303 million of loans, interest-rate swaps, or letters of credit issued by the Company to the entities at June 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. 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 June 30, 2014 and 2013, the Company recognized \$15 million of tax credits, and \$14 million and \$10 million of amortization expense, respectively. During the six months ended June 30, 2014 and 2013, the Company recognized \$30 million and \$29 million of tax credits, respectively, and \$27 million and \$20 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 June 30, 2014 and December 31, 2013, the Company's investment in these funds totaled \$145 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 \$234 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 June 30, 2014 and December 31, 2013, total assets, which consist primarily of fixed assets and cash, attributable to the consolidated non-VIE partnerships were \$108 million and \$151 million, respectively, and total liabilities, excluding intercompany liabilities, primarily representing third party borrowings, were \$56 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. At June 30, 2014, the carrying value of properties held for sale was \$65 million. Disposition of these properties is targeted to be completed within the next nine months.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 9 – NET INCOME PER COMMON SHARE

Equivalent shares of 16 million and 21 million related to common stock options and common stock warrants outstanding at June 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		Six Months Ended June	
	June 30		30	
(In millions, except per share data)	2014	2013	2014	2013
Net income	\$399	\$377	\$804	\$729
Preferred dividends	(9	) (9	) (19	) (18
Dividends and undistributed earnings allocated to unvested shares	(3	) (3	) (5	) (6
Net income available to common shareholders	\$387	\$365	\$780	\$705
Average basic common shares	530	535	530	535
Effect of dilutive securities:				
Stock options	1	2	2	2
Restricted stock and warrants	4	3	4	3
Average diluted common shares	535	540	536	540
Net income per average common share - diluted	\$0.72	\$0.68	\$1.45	\$1.31
Net income per average common share - basic	\$0.73	\$0.68	\$1.47	\$1.32

NOTE 10 - INCOME TAXES

The provision for income taxes was \$173 million and \$156 million for the three months ended June 30, 2014 and 2013, respectively, representing effective tax rates of 30.2% and 29.3%, respectively. The provision for income taxes was \$298 million and \$317 million for the six months ended June 30, 2014 and 2013, respectively, representing effective tax rates of 27.0% and 30.3%, respectively. The Company calculated the provision for income taxes for the three and six months ended June 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 \$274 million and \$291 million at June 30, 2014 and December 31, 2013, respectively. It is reasonably possible that the liability for UTBs could decrease by as much as \$180 million during the next 12 months due to the completion of tax authority examinations and expiration of statutes of limitations. A portion of the decrease may favorably impact the effective tax rate.

Notes to Consolidated Financial Statements (Unaudited), continued

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 incentive plans with cash payouts was \$51 million and \$39 million for the three months ended June 30, 2014 and 2013, respectively and \$96 million and \$78 million for the six months ended June 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 June 30, 2014, approximately 17 million shares remained available for grant.

Stock options are 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 issued during the six months ended June 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 first six 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 six months ended June 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	

Stock-based compensation expense recognized in noninterest expense for the three and six months ended June 30, were as follows:

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Stock-based compensation expense:				
Stock options	\$—	\$1	\$1	\$4
Restricted stock	6	8	14	15
RSUs	7	4	21	13

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Total stock-based compensation expense	\$13	\$13	\$36	\$32
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The recognized stock-based compensation tax benefit was \$5 million for both the three months ended June 30, 2014 and 2013, and \$14 million and \$12 million for the six months ended June 30, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

Retirement Plans

SunTrust did not contribute to either of its noncontributory qualified retirement plans ("Retirement Benefit Plans") during the six months ended June 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 six months ended June 30, 2014, the actual contributions/benefit payments were \$1 million and \$2 million, respectively. SunTrust contributed less than \$1 million to the Postretirement Welfare Plan during the three and six months ended June 30, 2014. 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.

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

(Dollars in millions)	Three Months Ended June 30			
	2014		2013	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Service cost	\$1	¹ \$—	\$1	¹ \$—
Interest cost	31	1	28	2
Expected return on plan assets	(50	)¹ (1	(48	)¹ (2
Amortization of prior service credit	—	(2	—	—
Recognized net actuarial loss	4	—	7	—
Net periodic benefit	(\$14	) (\$2	(\$12) \$—

(Dollars in millions)	Six Months Ended June 30			
	2014		2013	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Service cost	\$2	¹ \$—	\$2	¹ \$—
Interest cost	62			