

SUNTRUST BANKS INC
Form 10-Q
August 08, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

Commission File Number 001-08918

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

Georgia
(State or other jurisdiction
of incorporation or organization)
303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(404) 588-7711
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

✓ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

At July 31, 2013, 537,528,406 shares of the Registrant’s Common Stock, \$1.00 par value, were outstanding.

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GLOSSARY OF DEFINED TERMS

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

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

Parent Company — SunTrust Banks, Inc., the parent Company of SunTrust Bank and other subsidiaries of SunTrust Banks, Inc.

PD — Probability of default.

QSPE — Qualifying special-purpose entity.

RidgeWorth — RidgeWorth Capital Management, Inc.

ROA — Return on average total assets.

ROE — Return on average common shareholders' equity.

RSU — Restricted stock unit.

RWA — Risk-weighted assets.

S&P — Standard and Poor's.

SBA — Small Business Administration.

SCAP — Supervisory Capital Assessment Program.

SEC — U.S. Securities and Exchange Commission.

SERP — Supplemental Executive Retirement Plan.

SPE — Special purpose entity.

STIS — SunTrust Investment Services, Inc.

STM — SunTrust Mortgage, Inc.

STRH — SunTrust Robinson Humphrey, Inc.

SunTrust — SunTrust Banks, Inc.

SunTrust Community Capital — SunTrust Community Capital, LLC.

TAG — Transaction Account Guarantee.

TDR — Troubled debt restructuring.

TRS — Total return swaps.

U.S. — United States.

U.S. GAAP — Generally Accepted Accounting Principles in the United States.

U.S. Treasury — The United States Department of the Treasury.

VA — Veterans Administration.

VAR — Value at risk.

VI — Variable interest.

VIE — Variable interest entity.

Visa — The Visa, U.S.A. Inc. card association or its affiliates, collectively.

Visa Counterparty — a financial institution which purchased the Company's Visa Class B shares.

W&IM — Wealth and Investment Management.

PART I - FINANCIAL INFORMATION

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

Operating results for the three and six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

Consolidated Statements of Income

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

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

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

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

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.

Consolidated Statements of Comprehensive (Loss)/Income

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

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

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

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

See Notes to Consolidated Financial Statements (unaudited).

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

¹ At June 30, 2013, includes (\$605) million for treasury stock, (\$68) million for compensation element of restricted stock, and \$115 million for noncontrolling interest.

At June 30, 2012, includes (\$707) million for treasury stock, (\$65) million for compensation element of restricted stock, and \$111 million for noncontrolling interest.

² Components of AOCI at June 30, 2013, included \$65 million in unrealized net gains on AFS securities, \$369 million in unrealized net gains on derivative financial instruments, and (\$717) million related to employee benefit plans. At June 30, 2012, components included \$2,055 million in unrealized net gains on AFS securities, \$399 million in unrealized net gains on derivative financial instruments, and (\$711) million related to employee benefit plans.

³ Dividends were \$2,022 per share for Perpetual Preferred Stock Series A and B and \$2,856 per share for Perpetual Preferred Stock Series E for the six months ended June 30, 2013.

See Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.

Consolidated Statements of Cash Flows

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

See Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

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

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

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

liability arrangements as the sum of the amount the Company agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the Company expects to pay on behalf of its co-obligors. The ASU is effective for the fiscal years and interim periods beginning after December 15, 2013. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

In June 2013, the FASB issued ASU 2013-08, "Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements." The ASU clarifies the characteristics of an investment company and requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. The ASU is effective for the fiscal years and interim periods beginning

Notes to Consolidated Financial Statements (Unaudited), continued

after December 15, 2013. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position, results of operations, or EPS.

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

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

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

Netting of Securities - Repurchase and Resell Agreements

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

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 3 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

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

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

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

The following table presents interest and dividends on securities AFS:

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

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

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

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

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

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Notes to Consolidated Financial Statements (Unaudited), continued

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

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, 2013, the Company did not intend to sell these securities nor was it more-likely-than-not that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies in the Company's 2012 Annual Report on Form 10-K.

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

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

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Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

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

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

Credit impairment that is determined through the use of cash flow models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by using various assumptions, the most significant of which include default rates, prepayment rates, and loss severities. If, based on this analysis, the security is in an unrealized loss position and the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities.

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 4 - LOANS

Composition of Loan Portfolio

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

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

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

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

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

Credit Quality Evaluation

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company's formal underwriting process, and refreshed FICO scores are obtained by the Company at least quarterly. For government-guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At June 30, 2013 and December 31, 2012, 87% and 89%, respectively, of the guaranteed student loan portfolio was current with respect to payments. At June 30, 2013 and December 31, 2012, 82% and 83%, respectively, of the guaranteed residential loan portfolio was current with respect to payments. Loss exposure to the Company on these loans is mitigated by the government guarantee.

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

(Dollars in millions)	Commercial Loans					
	C&I		Commercial real estate		Commercial construction	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Credit rating:						
Pass	\$53,339	\$52,292	\$3,876	\$3,564	\$534	\$506
Criticized accruing	1,504	1,562	378	497	110	173
Criticized nonaccruing	227	194	54	66	23	34
Total	\$55,070	\$54,048	\$4,308	\$4,127	\$667	\$713
	Residential Loans ¹					
(Dollars in millions)	Residential mortgages - nonguaranteed		Home equity products		Residential construction	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current FICO score range:						
700 and above	\$17,671	\$17,410	\$11,376	\$11,339	\$482	\$561
620 - 699	3,730	3,850	2,244	2,297	107	123
Below 620 ²	1,940	2,129	1,062	1,169	46	69
Total	\$23,341	\$23,389	\$14,682	\$14,805	\$635	\$753
	Consumer Loans ³					
(Dollars in millions)	Other direct		Indirect		Credit cards	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Current FICO score range:						
700 and above	\$2,051	\$1,980	\$8,391	\$8,300	\$442	\$435
620 - 699	367	350	2,141	2,038	155	152
Below 620 ²	65	66	619	660	44	45
Total	\$2,483	\$2,396	\$11,151	\$10,998	\$641	\$632

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

²For 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.

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

¹Includes \$339 million of loans carried at fair value, the majority of which were accruing current.

²Nonaccruing loans past due 90 days or more totaled \$789 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

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

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Credit cards	619	7	6	—	632
Total consumer loans	18,669	646	43	25	19,383
Total LHF1	\$118,008	\$1,133	\$782	\$1,547	\$121,470

¹Includes \$379 million of loans carried at fair value, the majority of which were accruing current.

²Nonaccruing loans past due 90 days or more totaled \$975 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

Notes to Consolidated Financial Statements (Unaudited), continued

Impaired Loans

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended June 30				Six Months Ended June 30			
	2013		2012		2013		2012	
(Dollars in millions)	Average Amortized Cost	Interest Income Recognized ¹	Average Amortized Cost	Interest Income Recognized ¹	Average Amortized Cost	Interest Income Recognized ¹	Average Amortized Cost	Interest Income Recognized ¹
Impaired loans with no related allowance recorded:								
Commercial loans:								
C&I	\$70	\$1	\$37	\$—	\$63	\$1	\$38	\$—
Commercial real estate	9	—	59	1	8	—	63	1
Commercial construction	47	—						