SUNTRUST BANKS INC
Form 10-Q
November 04, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 001-08918

SUNTRUST BANKS, INC.

(Exact name of registrant as specified in its charter)

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

303 Peachtree Street, N.E., Atlanta, Georgia 30308

(Address of principal executive offices) (Zip Code)

(404) 588-7711

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 such shorter period that the registrant was required to submit and post such files).

x 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 ¨
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

At October 28, 2009, 499,150,479 shares of the Registrant s Common Stock, $1.00 par value, were outstanding.

Table of Contents

Tables of Contents

PART I FINANCIAL INFORMATION

		Page
Item 1.	Financial Statements (Unaudited)	2
	Consolidated Statements of Income/(Loss)	2
	Consolidated Balance Sheets	3
	Consolidated Statements of Shareholders Equity	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	54
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	98
Item 4.	Controls and Procedures	98
PART II OTHER INFORMATION		
Item 1.	Legal Proceedings	98
Item 1A.	Risk Factors	98
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	99
Item 3.	Defaults Upon Senior Securities	99
Item 4.	Submission of Matters to a Vote of Security Holders	99
Item 5.	Other Information	99
Item 6.	Exhibits	100
SIGNATURES		101

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 accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full year of 2009.

Table of Contents

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

Consolidated Statements of Income/(Loss)

(Dollars and shares in thousands, except per share data) (Unaudited)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2009	2008	**2009**	2008
Interest Income				
Interest and fees on loans	**$1,370,318**	$1,688,019	**$4,180,248**	$5,258,075
Interest and fees on loans held for sale	**57,286**	64,937	**191,524**	236,437
Interest and dividends on securities available for sale				
Taxable interest	**177,712**	153,006	**527,573**	462,523
Tax-exempt interest	**9,660**	10,852	**30,377**	33,395
Dividends[1]	**18,620**	21,410	**54,848**	84,672
Interest on funds sold and securities purchased under agreements to resell	**395**	7,527	**1,890**	23,208
Interest on deposits in other banks	**33**	198	**209**	646
Trading account interest	**23,498**	71,365	**93,462**	243,055
Total interest income	**1,657,522**	2,017,314	**5,080,131**	6,342,011
Interest Expense				
Interest on deposits	**334,992**	545,898	**1,157,768**	1,873,547
Interest on funds purchased and securities sold under agreements to repurchase	**1,460**	31,321	**6,634**	123,648
Interest on trading liabilities	**4,658**	8,830	**15,735**	21,463
Interest on other short-term borrowings	**2,970**	11,220	**11,718**	47,084
Interest on long-term debt	**175,984**	273,832	**599,063**	833,473
Total interest expense	**520,064**	871,101	**1,790,918**	2,899,215
Net interest income	**1,137,458**	1,146,213	**3,289,213**	3,442,796
Provision for loan losses	**1,133,929**	503,672	**3,090,208**	1,511,721
Net interest income after provision for loan losses	**3,529**	642,541	**199,005**	1,931,075
Noninterest Income				
Service charges on deposit accounts	**219,071**	240,241	**635,689**	682,376
Trust and investment management income	**118,874**	147,477	**351,891**	465,898
Other charges and fees	**133,433**	128,776	**385,553**	385,588
Card fees	**82,370**	78,138	**238,535**	230,465
Retail investment services	**51,361**	72,791	**163,474**	218,855
Investment banking income	**75,343**	62,164	**211,915**	178,571
Mortgage production related income	**28,143**	50,028	**444,001**	199,085
Mortgage servicing related income	**60,193**	62,654	**283,203**	124,300
Trading account profits/(losses) and commissions	**(86,866)**	121,136	**(9,593)**	100,048
Net gain on sale of businesses	**-**	81,813	**-**	200,851
Gain from ownership in Visa	**-**	-	**112,102**	86,305
Net gain on sale/leaseback of premises	**-**	-	**-**	37,039
Other noninterest income	**46,437**	66,958	**126,024**	184,106
Net securities gains[2]	**46,692**	173,046	**25,170**	662,247
Total noninterest income	**775,051**	1,285,222	**2,967,964**	3,755,734
Noninterest Expense				
Employee compensation	**541,347**	596,050	**1,683,597**	1,788,398
Employee benefits	**124,690**	100,160	**422,201**	334,852
Outside processing and software	**146,850**	132,361	**430,570**	348,731
Operating losses	**18,425**	135,183	**73,616**	210,100
Marketing and customer development	**38,157**	217,693	**103,146**	320,599
Net occupancy expense	**90,445**	88,745	**265,082**	260,669

Equipment expense	**41,616**	51,931	**128,948**	155,317
Mortgage reinsurance	**10,000**	47,956	**104,620**	79,928
Credit and collection services	**69,128**	50,568	**183,315**	112,133
Amortization/impairment of goodwill/intangible assets	**13,741**	18,551	**794,712**	104,001
Other real estate expense	**88,317**	32,304	**181,725**	69,433
Regulatory assessments	**45,473**	19,061	**241,621**	34,387
Net loss on debt extinguishment	**2,276**	-	**15,836**	11,723
Visa litigation	**-**	20,000	**7,000**	(19,124)
Other noninterest expense	**198,382**	154,732	**472,853**	481,723
Total noninterest expense	**1,428,847**	1,665,295	**5,108,842**	4,292,870
Income/(loss) before provision/(benefit) for income taxes	**(650,267)**	262,468	**(1,941,873)**	1,393,939
Provision/(benefit) for income taxes	**(336,056)**	(52,767)	**(635,790)**	241,685
Net income/(loss) including income attributable to noncontrolling interest	**(314,211)**	315,235	**(1,306,083)**	1,152,254
Net income attributable to noncontrolling interest	**2,730**	2,791	**9,485**	8,893
Net income/(loss)	**($316,941)**	$312,444	**($1,315,568)**	$1,143,361
Net income/(loss) available to common shareholders	**($377,144)**	$304,397	**($1,416,953)**	$1,115,920
Net income/(loss) per average common share				
Diluted	**($0.76)**	$0.87	**($3.41)**	$3.19
Basic	**(0.76)**	0.87	**(3.41)**	3.20
Dividends declared per common share	**0.01**	0.77	**0.21**	2.31
Average common shares - diluted[3]	**494,169**	350,970	**415,444**	349,613
Average common shares - basic	**494,169**	349,916	**415,444**	348,409
[1] Includes dividends on common stock of The Coca-Cola Company	**$12,300**	$11,400	**$36,900**	$44,520

[2] Includes other-than-temporary impairment losses of $9.7 million for the three months ended September 30, 2009, consisting of $89.7 million of total unrealized losses, net of $80.0 million of non-credit related unrealized losses recorded in other comprehensive income, before taxes, and other-than-temporary impairment losses of $16.1 million for the nine months ended September 30, 2009, consisting of $96.1 million of total unrealized losses, net of $80.0 million of non-credit related unrealized losses recorded in other comprehensive income, before taxes.

[3] For earnings per share calculation purposes, the impact of dilutive securities are excluded from the diluted share count during periods that the Company has recognized a net loss available to common shareholders because the impact would be anti-dilutive.

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents

SunTrust Banks, Inc.

Consolidated Balance Sheets

	As of	
(Dollars in thousands) (Unaudited)	**September 30 2009**	December 31 2008
Assets		
Cash and due from banks	**$4,303,550**	$5,622,789
Interest-bearing deposits in other banks	**25,098**	23,999
Funds sold and securities purchased under agreements to resell	**829,089**	990,614
Cash and cash equivalents	**5,157,737**	6,637,402
Trading assets	**6,673,623**	10,396,269
Securities available for sale[1]	**22,122,850**	19,696,537
Loans held for sale (loans at fair value: $2,862,755 as of September 30, 2009; $2,424,432 as of December 31, 2008)	**4,577,549**	4,032,128
Loans (loans at fair value: $468,658 as of September 30, 2009; $270,342 as of December 31, 2008)	**116,487,938**	126,998,443
Allowance for loan and lease losses	**(3,024,000)**	(2,350,996)
Net loans	**113,463,938**	124,647,447
Premises and equipment	**1,553,342**	1,547,892
Goodwill	**6,314,382**	7,043,503
Other intangible assets (mortgage servicing rights at fair value: $783,242 as of September 30, 2009; $0 as of December 31, 2008)	**1,604,136**	1,035,427
Customers acceptance liability	**5,911**	5,294
Other real estate owned	**571,553**	500,481
Unsettled sales of securities available for sale	**3,094,620**	6,386,795
Other assets	**7,578,106**	7,208,786
Total assets	**$172,717,747**	$189,137,961
Liabilities and Shareholders Equity		
Noninterest-bearing consumer and commercial deposits	**$23,590,252**	$21,522,021
Interest-bearing consumer and commercial deposits	**90,010,990**	83,753,686
Total consumer and commercial deposits	**113,601,242**	105,275,707
Brokered deposits (CDs at fair value: $1,206,402 as of September 30, 2009; $587,486 as of December 31, 2008)	**4,953,103**	7,667,167
Foreign deposits	**776,697**	385,510
Total deposits	**119,331,042**	113,328,384
Funds purchased	**1,037,562**	1,120,079
Securities sold under agreements to repurchase	**2,186,204**	3,193,311
Other short-term borrowings (debt at fair value: $0 as of September 30, 2009; $399,611 as of December 31, 2008)	**1,692,889**	5,166,360
Long-term debt (debt at fair value: $3,575,807 as of September 30, 2009; $7,155,684 as of December 31, 2008)	**18,177,280**	26,812,381
Acceptances outstanding	**5,911**	5,294
Trading liabilities	**2,531,114**	3,240,784
Unsettled purchases of securities available for sale	**313,582**	8,898,279
Other liabilities	**4,533,879**	4,872,284
Total liabilities	**149,809,463**	166,637,156
Preferred stock	**4,911,416**	5,221,703
Common stock, $1.00 par value	**514,667**	372,799
Additional paid in capital	**8,520,533**	6,904,644
Retained earnings	**8,886,150**	10,388,984
Treasury stock, at cost, and other	**(1,076,633)**	(1,368,450)
Accumulated other comprehensive income, net of tax	**1,152,151**	981,125
Total shareholders equity	**22,908,284**	22,500,805

Total liabilities and shareholders equity	**$172,717,747**	$189,137,961
Common shares outstanding	**499,146,588**	354,515,013
Common shares authorized	**750,000,000**	750,000,000
Preferred shares outstanding	**50,225**	53,500
Preferred shares authorized	**50,000,000**	50,000,000
Treasury shares of common stock	**15,520,007**	18,284,356
[1] Includes net unrealized gains on securities available for sale	**$1,903,166**	$1,413,330

See Notes to Consolidated Financial Statements (unaudited).

3

Table of Contents

SunTrust Banks, Inc.

Consolidated Statements of Shareholders Equity

(Dollars and shares in thousands, 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 Income	Total
Balance, January 1, 2008	$500,000	348,411	$370,578	$6,707,293	$10,646,640	($1,661,719)	$1,607,149	$18,169,941
Net income	-	-	-	-	1,143,361	-	-	1,143,361
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	-	-	-	-	-	-	(733,952)	(733,952)
Change in unrealized gains (losses) on derivatives, net of taxes	-	-	-	-	-	-	4,089	4,089
Change related to employee benefit plans	-	-	-	-	-	-	11,004	11,004
Total comprehensive income								424,502
Change in noncontrolling interest	-	-	-	-	-	(4,070)	-	(4,070)
Issuance of common stock for GB&T acquisition	-	2,221	2,221	152,292	-	-	-	154,513
Common stock dividends, $2.31 per share	-	-	-	-	(812,971)	-	-	(812,971)
Preferred stock dividends, $3,440 per share	-	-	-	-	(17,200)	-	-	(17,200)
Exercise of stock options and stock compensation expense	-	439	-	2,251	-	35,314	-	37,565
Performance and restricted stock activity	-	1,609	-	(40,378)	-	40,314	-	(64)
Amortization of performance and restricted stock compensation	-	-	-	-	-	52,490	-	52,490
Issuance of stock for employee benefit plans	-	1,282	-	(37,983)	-	102,154	-	64,171
Other activity	-	-	-	501	-	-	-	501
Balance, September 30, 2008	$500,000	353,962	$372,799	$6,783,976	$10,959,830	($1,435,517)	$888,290	$18,069,378
Balance, January 1, 2009	**$5,221,703**	**354,515**	**$372,799**	**$6,904,644**	**$10,388,984**	**($1,368,450)**	**$981,125**	**$22,500,805**
Net loss	**-**	**-**	**-**	**-**	**(1,315,568)**	**-**	**-**	**(1,315,568)**
Other comprehensive income:								
Change in unrealized gains (losses) on securities, net of taxes	**-**	**-**	**-**	**-**	**-**	**-**	**321,991**	**321,991**
Change in unrealized gains (losses) on derivatives, net of taxes	**-**	**-**	**-**	**-**	**-**	**-**	**(296,469)**	**(296,469)**
Change related to employee benefit plans	**-**	**-**	**-**	**-**	**-**	**-**	**153,219**	**153,219**
Total comprehensive loss								**(1,136,827)**
Change in noncontrolling interest	**-**	**-**	**-**	**-**	**-**	**(1,648)**	**-**	**(1,648)**
Common stock dividends, $0.21 per share	**-**	**-**	**-**	**-**	**(77,632)**	**-**	**-**	**(77,632)**
Series A preferred stock dividends, $3,044 per share	**-**	**-**	**-**	**-**	**(12,398)**	**-**	**-**	**(12,398)**
U.S. Treasury preferred stock dividends, $3,754 per share	**-**	**-**	**-**	**-**	**(182,062)**	**-**	**-**	**(182,062)**
Accretion of discount associated with U.S. Treasury preferred stock	**17,202**	**-**	**-**	**-**	**(17,202)**	**-**	**-**	**-**
Issuance of common stock in connection with SCAP capital plan	**-**	**141,868**	**141,868**	**1,687,867**	**-**	**-**	**-**	**1,829,735**
Extinguishment of forward stock purchase contract	**-**	**-**	**-**	**173,653**	**-**	**-**	**-**	**173,653**
Repurchase of preferred stock	**(327,489)**	**-**	**-**	**5,047**	**94,318**	**-**	**-**	**(228,124)**
Exercise of stock options and stock compensation expense	**-**	**-**	**-**	**6,045**	**-**	**-**	**-**	**6,045**
Performance and restricted stock activity	**-**	**1,900**	**-**	**(204,984)**	**-**	**174,854**	**-**	**(30,130)**

Amortization of performance and restricted stock compensation	**-**	**-**	**-**	**-**	**-**	**51,330**	**-**	**51,330**
Issuance of stock for employee benefit plans	**-**	**864**	**-**	**(51,739)**	**(5)**	**67,281**	**-**	**15,537**
Adoption of ASC 320-10[2]	**-**	**-**	**-**	**-**	**7,715**		**(7,715)**	**-**
Balance, September 30, 2009	**$4,911,416**	**499,147**	**$514,667**	**$8,520,533**	**$8,886,150**	**($1,076,633)**	**$1,152,151**	**$22,908,284**

1 Balance at September 30, 2009 includes ($1,110,960) for treasury stock, ($76,721) for compensation element of restricted stock, and $111,048 for noncontrolling interest.
Balance at September 30, 2008 includes ($1,413,849) for treasury stock, ($135,021) for compensation element of restricted stock, and $113,353 for noncontrolling interest.

2 Effective April 1, 2009, the Company adopted the update to ASC 320-10, which provided the guidance in determining the impact of other-than-temporary impairment. Amounts shown are net-of-tax. See Note 1, Summary of Significant Accounting Principles and Note 3, Securities Available For Sale to the Consolidated Financial Statements for additional information on adoption of this accounting guidance.

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents

SunTrust Banks, Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands) (Unaudited)	Nine Months Ended September 30 2009	2008
Cash Flows from Operating Activities:		
Net income/(loss) including income attributable to noncontrolling interest	**($1,306,083)**	$1,152,254
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Net gain on sale of businesses	**-**	(200,851)
Visa litigation	**7,000**	(19,124)
Expense recognized on contribution of common stock of The Coca-Cola Company	**-**	183,418
Gain from ownership in Visa	**(112,102)**	(86,305)
Depreciation, amortization and accretion	**722,118**	628,581
Impairment of goodwill/intangibles	**751,156**	45,000
Recovery of mortgage servicing rights impairment, net of reserve	**(188,699)**	-
Origination of mortgage servicing rights	**(585,516)**	(396,590)
Provisions for loan losses and foreclosed property	**3,244,418**	1,564,873
Amortization of performance and restricted stock compensation	**51,330**	52,490
Stock option compensation	**6,045**	14,080
Excess tax benefits from stock-based compensation	**(369)**	(786)
Net loss on extinguishment of debt	**15,836**	11,723
Net securities gains	**(25,170)**	(662,247)
Net gain on sale/leaseback of premises	**-**	(37,039)
Net gain on sale of assets	**(40,157)**	(43,096)
Net (increase)/decrease in loans held for sale	**(809,791)**	3,469,032
Contributions to retirement plans	**(20,476)**	(4,237)
Net (increase)/decrease in other assets	**965,585**	(1,657,668)
Net decrease in other liabilities	**(962,414)**	(782,950)
Net cash provided by operating activities	**1,712,711**	3,230,558
Cash Flows from Investing Activities:		
Proceeds from maturities, calls and paydowns of securities available for sale	**2,674,985**	1,066,923
Proceeds from sales of securities available for sale	**10,210,583**	2,047,309
Purchases of securities available for sale	**(20,167,736)**	(1,915,327)
Proceeds from maturities, calls and paydowns of trading securities	**80,496**	3,620,326
Proceeds from sales of trading securities	**2,113,466**	3,004,185
Purchases of trading securities	**(85,965)**	(3,195,164)
Loan repayments/(originations), net	**7,076,102**	(4,813,139)
Proceeds from sales of loans held for investment	**524,589**	933,476
Proceeds from sale of mortgage servicing rights	**-**	148,378
Capital expenditures	**(160,674)**	(141,381)
Net cash and cash equivalents received for sale of businesses	**-**	297,211
Net cash and cash equivalents (paid for)/acquired in acquisitions	**(1,802)**	70,746
Proceeds from sale/redemption of Visa shares	**112,102**	86,305
Seix contingent consideration payout	**(12,722)**	-
Proceeds from the sale/leaseback of premises	**-**	288,851
Proceeds from the sale of other assets	**412,425**	252,759
Net cash provided by investing activities	**2,775,849**	1,751,458
Cash Flows from Financing Activities:		
Net increase/(decrease) in consumer and commercial deposits	**7,881,081**	(1,681,823)
Net decrease in foreign and brokered deposits	**(2,327,478)**	(1,888,211)
Assumption of deposits, net	**445,482**	160,517
Net decrease in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	**(4,563,095)**	(3,069,088)
Proceeds from the issuance of long-term debt	**574,560**	4,838,704
Repayment of long-term debt	**(9,319,440)**	(3,606,978)

Proceeds from the exercise of stock options	**-**	22,174
Excess tax benefits from stock-based compensation	**369**	786
Proceeds from the issuance of common stock	**1,829,735**	-
Repurchase of preferred stock	**(228,124)**	-
Common and preferred dividends paid	**(261,315)**	(830,171)
Net cash used in financing activities	**(5,968,225)**	(6,054,090)
Net decrease in cash and cash equivalents	**(1,479,665)**	(1,072,074)
Cash and cash equivalents at beginning of period	**6,637,402**	5,642,601
Cash and cash equivalents at end of period	**$5,157,737**	$4,570,527
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	**$301,308**	$642,268
Loans transferred from loans to other real estate owned	**602,651**	480,512
U.S. Treasury preferred dividend accrued but unpaid	**10,777**	-
Accretion on U.S. Treasury preferred stock	**17,202**	-
Extinguishment of forward stock purchase contract	**173,653**	-
Gain on repurchase of Series A preferred stock	**94,318**	-

See Notes to Consolidated Financial Statements (unaudited).

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

Note 1 Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (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. Effective May 1, 2008, SunTrust Banks, Inc. (SunTrust or the Company) acquired GB&T Bancshares, Inc. (GB&T). The acquisition was accounted for under the purchase method of accounting with the results of operations for GB&T included in those of the Company beginning May 1, 2008.

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.

These financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2008. Except for accounting policies that have been modified or recently adopted as described below, there have been no significant changes to the Company s accounting policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2008.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued an update to Accounting Standard Codification 105-10, Generally Accepted Accounting Principles . This standard establishes the FASB Accounting Standard Codification (Codification or ASC) as the source of authoritative U.S. GAAP recognized by the FASB for nongovernmental entities. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is a reorganization of existing U.S. GAAP and does not change existing U.S. GAAP. The Company adopted this standard during the third quarter of 2009. The adoption had no impact on the Company s financial position, results of operations, and earnings per share.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets , and SFAS No. 167, Amendments to FASB Interpretation No. 46(R) . These standards are effective for the first interim reporting period of 2010. SFAS No. 166 amends the guidance in ASC 860 to eliminate the concept of a qualifying special-purpose entity (QSPE) and changes some of the requirements for derecognizing financial assets. SFAS No. 167 amends the consolidation guidance in ASC 810-10. Specifically, the amendments will (a) eliminate the exemption for QSPEs from the new guidance, (b) shift the determination of which enterprise should consolidate a variable interest entity (VIE) to a current control approach, such that an entity that has both the power to make decisions and right to receive benefits or absorb losses that could potentially be significant, will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE. The Company is evaluating the impact that these standards will have on its financial statements.

The Company is in process of performing an analysis of the impact of these accounting standards on all QSPEs and VIE structures with which it is involved. Based on this analysis to date, the Company expects to consolidate its multi-seller conduit, Three Pillars Funding, LLC (Three Pillars). The primary balance sheet impacts of consolidating Three Pillars will be increases in loans and leases, the related allowance for loan losses, and short-term borrowings. The Company expects to earn approximately the same annual net income from its involvement with Three Pillars, but the Company s Consolidated Statement of Income will reflect a reduction in noninterest income and an increase in net interest income due to consolidation. (See Note 7, Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities, to the Consolidated Financial Statements for more discussion of Three Pillars.)

The pro forma impact of consolidating Three Pillars on January 1, 2010 (based on estimates of the carrying values of the assets of Three Pillars as of September 30, 2009) will be incremental assets and liabilities of approximately $902.0 million, as the Company currently holds $1.3 billion of Three Pillars commercial paper at September 30, 2009. There will be an insignificant impact on equity as a result of the transition adjustment that will be recorded on January 1, 2010 related to this consolidation. Based on financial information as of September 30, 2009, the pro forma impact on certain of the Company s regulatory capital ratios as a result of consolidating Three Pillars under both the current and the proposed risk-based capital rules is not significant.

Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company expects to initially measure assets, liabilities, and noncontrolling interests of Three Pillars at their unpaid principal balance. The Company expects that the cumulative effect of adopting SFAS 167 as of January 1, 2010 will not have a material impact on its financial statements or capital position.

The Company does not currently believe that it is the primary beneficiary of any other significant off-balance sheet entities with which it is involved. The Company will continue to evaluate the impact of the new guidance on its other structures. The ultimate impact could differ due to ongoing interpretations of the standard and market conditions. It is possible that the ongoing analysis and new interpretations may result in the identification of additional VIEs and QSPEs, other than Three Pillars, that may need to be consolidated. The Company does not currently expect the consolidation of such additional entities to have a significant impact on the Company s consolidated financial statements or regulatory capital.

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, Measuring Liabilities at Fair Value , which updates ASC 820-10, Fair Value Measurements and Disclosures . The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability. This guidance is effective beginning October 1, 2009. The Company does not expect that the guidance will change its valuation techniques for measuring liabilities at fair value.

In May 2009, the FASB updated ASC 855, Subsequent Events . ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted this guidance during the second quarter of 2009. In accordance with the update, the Company evaluates subsequent events through the date its financial statements are filed. The adoption of this guidance did not have an impact on the Company s financial position, results of operations, or earnings per share.

In April 2009, the FASB updated ASC 320-10, Investments Debt and Equity Securities. The guidance amends the other-than-temporary impairment (OTTI) guidance for debt securities. If the fair value of a debt security is less than its amortized cost basis at the measurement date, the updated guidance requires the Company to determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, an entity must recognize full impairment. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the guidance requires that the credit loss portion of impairment be recognized in earnings and the temporary impairment related to all other factors be recorded in other comprehensive income. In addition, the guidance requires additional disclosures regarding impairments on debt and equity securities. The Company adopted this guidance effective April 1, 2009 and in connection therewith, recorded a $7.7 million, net of tax, reclassification to decrease other comprehensive income for impairment charges previously recorded through earnings with an offset to retained earnings as a cumulative effect adjustment. The enhanced disclosures required by the guidance are included in Note 3, Securities Available for Sale, to the Consolidated Financial Statements.

In April 2009, the FASB updated ASC 820-10, Fair Value Measurements and Disclosures to provide guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. This issuance provides guidance on estimating fair value when there has been a significant decrease in the volume and level of activity for the asset or liability and for identifying transactions that may not be orderly. The guidance requires entities to disclose the inputs and valuation techniques used to measure fair value and to discuss changes in valuation techniques and related inputs, if any, in both interim and annual periods. The Company adopted this guidance during the second quarter of 2009 and the adoption did not have a material impact on the Company s financial position and results of operations, as the Company s existing valuation methodologies were largely consistent with those of this guidance. The enhanced disclosures related to this guidance are included in Note 15, Fair Value Election and Measurement, to the Consolidated Financial Statements.

In April 2009, the FASB updated ASC 825-10 Financial Instruments . This update amends the fair value disclosure guidance in ASC 825-10-50 and requires an entity to disclose the fair value of its financial instruments in interim reporting periods as well as in annual financial statements. The methods and significant assumptions used to estimate the fair value of financial instruments and any changes in methods and assumptions used during the reporting period are also required to be disclosed both on an interim and annual basis. The Company adopted this guidance during the second quarter of 2009. The required disclosures have been included in Note 15, Fair Value Election and Measurement, to the Consolidated Financial Statements.

In June 2008, the FASB updated ASC 260-10, Earnings Per Share. The guidance concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities that should be included in the earnings allocation in computing earnings per share under the two-class method. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior period earnings per share data presented must be adjusted retrospectively. The adoption of this update, effective January 1, 2009, did not have a material impact on the Company s financial position, results of operations, and earnings per share.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

In December 2007, the FASB updated ASC 810-10, Consolidation. This update generally requires that a noncontrolling interest in a subsidiary (i.e. minority interest) be reported in the equity section of the balance sheet instead of being reported as a liability or in the mezzanine section between debt and equity. It also requires that the consolidated income statement include consolidated net income attributable to the Company and the noncontrolling interest of a consolidated subsidiary. The update is effective for annual periods beginning after December 15, 2008. The Company adopted this update effective January 1, 2009, and is required to apply the guidance retrospectively to all prior periods presented. Reclassifications of $112.7 million were made in the Consolidated Balance Sheet as of December 31, 2008 and $2.8 million and $8.9 million in the Consolidated Statements of Income/(Loss) for the three and nine month periods ended September 30, 2008, respectively, to conform to the current period presentation.

Note 2 Acquisitions / Dispositions

(in millions)	Date	Cash or other consideration (paid)/received	Goodwill	Other Intangibles	Gain/ (Loss)	Comments
For the Nine Months Ended September 30, 2009						
Acquisition of Epic Advisors, Inc.	4/1/09	($2.0)	$5.0	$0.6	$-	Goodwill and intangibles recorded are tax-deductible.
For the Nine Months Ended September 30, 2008						
Purchase of remaining interest in Zevenbergen Capital Investments, LLC	9/30/08	(22.6)	20.7	-	-	Goodwill recorded is tax-deductible.
Sale of TransPlatinum Service Corp.	9/2/08	100.0	(10.5)	-	81.8	
Sale of First Mercantile Trust Company	5/30/08	59.1	(11.7)	(3.0)	29.6	
Acquisition of GB&T Bancshares, Inc [1]	5/1/08	(154.6)	143.5	29.5	-	Goodwill and intangibles recorded are non tax-deductible.
Sale of 24.9% interest in Lighthouse Investment Partners, LLC (Lighthouse Investment Partners)	1/2/08	155.0	-	(6.0)	89.4	SunTrust will continue to earn a revenue share based upon client referrals to the funds.

[1] On May 1, 2008, SunTrust acquired GB&T, a North Georgia-based financial institution serving commercial and retail customers, for $154.6 million, including cash paid for fractional shares, via the merger of GB&T with and into SunTrust. In connection therewith, GB&T shareholders received 0.1562 shares of the Company s common stock for each share of GB&T s common stock, resulting in the issuance of approximately 2.2 million shares of SunTrust common stock. As a result of the acquisition, SunTrust acquired approximately $1.4 billion of loans, primarily commercial real estate loans, and assumed approximately $1.4 billion of deposit liabilities. SunTrust elected to account for $171.6 million of the acquired loans at fair value. The remaining loans are accounted for at amortized cost and had a carryover reserve for loan and lease losses of $158.7 million. The acquisition was accounted for under the purchase method of accounting with the results of operations for GB&T included in SunTrust s results beginning May 1, 2008.

Note 3 Securities Available for Sale

Securities available for sale at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	**$4,879,151**	**$48,797**	**$252**	**$4,927,696**
U.S. states and political subdivisions	**968,561**	**37,626**	**5,934**	**1,000,253**
Residential mortgage-backed securities - agency	**12,155,652**	**310,186**	**1,857**	**12,463,981**
Residential mortgage-backed securities - private	**522,808**	**1,650**	**107,213**	**417,245**
Other debt securities	**791,992**	**15,868**	**7,537**	**800,323**
Common stock of The Coca-Cola Company	**69**	**1,610,931**	**-**	**1,611,000**
Other equity securities[1]	**901,451**	**901**	**-**	**902,352**

Total securities available for sale	**$20,219,684**	**$2,025,959**	**$122,793**	**$22,122,850**

8

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

	December 31, 2008			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and federal agencies	$464,566	$21,889	$302	$486,153
U.S. states and political subdivisions	1,018,906	24,621	6,098	1,037,429
Residential mortgage-backed securities - agency	14,424,531	135,803	10,230	14,550,104
Residential mortgage-backed securities - private	629,174	8,304	115,327	522,151
Other debt securities	302,800	4,444	13,059	294,185
Common stock of The Coca-Cola Company	69	1,358,031	-	1,358,100
Other equity securities[1]	1,443,161	5,254	-	1,448,415
Total securities available for sale	$18,283,207	$1,558,346	$145,016	$19,696,537

[1]Includes $343.3 million and $493.2 million of Federal Home Loan Bank (FHLB) of Cincinnati and FHLB of Atlanta stock stated at par value, $360.4 million and $360.9 million of Federal Reserve Bank stock stated at par value and $197.4 million and $588.5 million of mutual fund investments stated at fair value as of September 30, 2009 and December 31, 2008, respectively.

The amortized cost and fair value of investments in debt securities at September 30, 2009 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 call or prepayment penalties.

(Dollars in thousands)	**1 Year or Less**	**1-5 Years**	**5-10 Years**	**After 10 Years**	**Total**
Distribution of Maturities:					
Amortized Cost					
Residential mortgage-backed securities - agency	**$152,410**	**$9,711,233**	**$2,210,677**	**$81,332**	**$12,155,652**
Other debt securities	**397,451**	**6,057,151**	**512,896**	**195,014**	**7,162,512**
Total debt securities	**$549,861**	**$15,768,384**	**$2,723,573**	**$276,346**	**$19,318,164**
Fair Value					
Residential mortgage-backed securities - agency	**$157,076**	**$9,930,036**	**$2,291,170**	**$85,699**	**$12,463,981**
Other debt securities	**400,407**	**6,035,037**	**526,004**	**184,069**	**7,145,517**
Total debt securities	**$557,483**	**$15,965,073**	**$2,817,174**	**$269,768**	**$19,609,498**

Gross realized gains and losses on sales and OTTI on securities available for sale during the periods were as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(Dollars in thousands)	**2009**	2008	**2009**	2008
Gross realized gains	**$71,395**	$183,464	**$87,559**	$744,838
Gross realized losses	**(15,048)**	(142)	**(46,273)**	(826)
OTTI	**(9,655)**	(10,276)	**(16,116)**	(81,765)
Net securities gains/(losses)	**$46,692**	$173,046	**$25,170**	$662,247

Securities with unrealized losses at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009					
	Less than twelve months		**Twelve months or longer**		**Total**	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and federal agencies	**$161,276**	**$252**	**$-**	**$-**	**$161,276**	**$252**
U.S. states and political subdivisions	**79,175**	**4,775**	**69,417**	**1,159**	**148,592**	**5,934**
Residential mortgage-backed securities - agency	**478,401**	**1,857**	**103**	**-**	**478,504**	**1,857**
Residential mortgage-backed securities - private	**16,016**	**3,461**	**342,152**	**103,752**	**358,168**	**107,213**
Other debt securities	**34,065**	**1,839**	**28,799**	**5,698**	**62,864**	**7,537**
Total securities with unrealized losses	**$768,933**	**$12,184**	**$440,471**	**$110,609**	**$1,209,404**	**$122,793**

	December 31, 2008					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$43,584	$302	$23	$-	$43,607	$302
U.S. states and political subdivisions	169,693	4,980	14,879	1,118	184,572	6,098
Residential mortgage-backed securities - agency	3,354,319	10,223	472	7	3,354,791	10,230
Residential mortgage-backed securities - private	450,653	98,696	40,269	16,631	490,922	115,327
Other debt securities	143,666	6,901	28,944	6,158	172,610	13,059
Total securities with unrealized losses	$4,161,915	$121,102	$84,587	$23,914	$4,246,502	$145,016

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

On September 30, 2009, the Company held certain investment securities having unrealized loss positions. The Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before their anticipated recovery. The Company has reviewed its portfolio for OTTI in accordance with the accounting policies outlined in Note 1, Significant Accounting Policies, to the Consolidated Financial Statements. Market changes in interest rates and credit spreads will result in temporary unrealized losses as the market price of securities fluctuates. The turmoil and illiquidity in the financial markets during 2008 and 2009 have increased market yields on securities as a result of credit spreads widening. This shift in market yields resulted in unrealized losses on certain securities within the Company s portfolio that continued during the first nine months of 2009. The unrealized loss of $107.2 million in private residential mortgage-backed securities (MBS) as of September 30, 2009 includes purchased and retained interests from securitizations that are evaluated quarterly for OTTI using cash flow models. The Company records OTTI based on the credit impairment estimates derived from the cash flow analyses. The remaining unrealized loss in OCI is reflective of the current illiquidity and risk premiums reflected in the market. The unrealized loss of $7.5 million in other debt securities is primarily related to senior and subordinated corporate bond positions. As of September 30, 2009, approximately 93% of the total securities available for sale portfolio are rated AAA, the highest possible rating by nationally recognized rating agencies.

For the three and nine months ended September 30, 2009, the Company recorded OTTI losses on available for sale securities as follows:

	Three Months Ended September 30 2009	Nine Months Ended September 30 2009	
(Dollars in thousands)	Residential Mortgage-Backed Securities - Private	Residential Mortgage-Backed Securities - Private	Other Securities
Total other than temporary impairment losses	$89,702	$95,951	$212
Portion of losses recognized in other comprehensive income (before taxes)	80,047	80,047	-
Net impairment losses recognized in earnings	$9,655	$15,904	$212

While all securities are reviewed for OTTI, the securities primarily impacted by credit impairment are private residential MBS. For these securities, impairment is determined through the use of cash flow models that estimate cash flows on the underlying mortgages, using security specific collateral and the transaction structure. The cash flow models incorporate the remaining cash flows which are adjusted for future expected credit losses. Future expected credit losses are determined by using various assumptions such as current default rates, prepayment rates, and loss severities. The Company develops these assumptions through the use of market data published by third-party sources in addition to historical analysis which includes actual delinquency and default information through the current period. The expected cash flows are then discounted at the interest rate used to recognize interest income on the security to arrive at a present value amount. The following table presents a summary of the significant inputs considered in determining the measurement of credit losses recognized in earnings for private residential MBS:

	September 30 2009
Current default rate	0-12%
Prepayment rate	5-17%
Loss severity	35-100%

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

The following is a rollforward of credit losses recognized in earnings for the three and six months ended September 30, 2009 related to securities for which some portion of the impairment was recorded in other comprehensive income.

(Dollars in thousands)	**Three Months Ended September 30, 2009**
Balance, as of June 30, 2009	**$12,451**
Additions:	
OTTI credit losses on securities not previously impaired	**7,833**
OTTI credit losses on previously impaired securities	**1,822**
Balance, as of September 30, 2009	**$22,106**

(Dollars in thousands)	**Six Months Ended September 30, 2009**
Balance, as of April 1, 2009, effective date	**$7,646**
Additions:	
OTTI credit losses on securities not previously impaired	**12,638**
OTTI credit losses on previously impaired securities	**1,822**
Balance, as of September 30, 2009	**$22,106**

The Company adopted the updated guidance in ASC 320-10 on determining OTTI on securities on April 1, 2009 and in conjunction therewith analyzed the securities for which it had previously recognized OTTI and recognized a cumulative effect adjustment representing the non-credit component of OTTI of $7.7 million, net of tax. The Company had previously recorded the non-credit component as impairment in earnings and therefore this amount was reclassified from retained earnings to other comprehensive income. The beginning balance of $7.6 million, pre-tax, as of the effective date, represents the credit loss component which remained in retained earnings related to the securities for which a cumulative effect adjustment was recorded. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected, discounted using the security s initial effective interest rate, and the amortized cost basis of these securities. The total OTTI impairment related to factors other than credit and therefore, recognized in accumulated other comprehensive income (AOCI), before tax, totaled $80.0 million as of September 30, 2009.

Note 4 Allowance for Loan and Lease Losses

Activity in the allowance for loan and lease losses is summarized in the table below:

	Three Months Ended September 30		%	**Nine Months Ended September 30**		%
(Dollars in thousands)	**2009**	2008	Change	**2009**	2008	Change
Balance at beginning of period	**$2,896,000**	$1,829,400	58.3 %	**$2,350,996**	$1,282,504	83.3 %
Allowance from GB&T acquisition	**-**	-	-	**-**	158,705	(100.0)
Provision for loan losses	**1,133,929**	503,672	125.1	**3,090,208**	1,511,721	104.4
Loan charge-offs	**(1,045,894)**	(419,724)	149.2	**(2,528,368)**	(1,097,985)	130.3
Loan recoveries	**39,965**	27,652	44.5	**111,164**	86,055	29.2
Balance at end of period	**$3,024,000**	$1,941,000	55.8 %	**$3,024,000**	$1,941,000	55.8 %

Note 5 Premises and Equipment

During the nine months ended September 30, 2008, the Company completed sale/leaseback transactions, consisting of 152 branch properties and various individual office buildings. In total, during 2008, the Company sold and concurrently leased back $201.9 million in land and buildings with associated accumulated depreciation of $110.3 million. Net proceeds were $288.9 million, resulting in a gross gain, net of transaction costs, of $197.3 million. For the nine months ended September 30, 2008, the Company recognized $37.0 million of gain, all of which was recognized in the first quarter of 2008. The remaining $160.3 million in gains were deferred and will be recognized ratably over the expected term of the respective leases, which is 10 years.

Note 6 Goodwill and Other Intangible Assets

Due to the continued recessionary environment and sustained deterioration in the economy during the first quarter of 2009, the Company performed a complete goodwill impairment analysis for all of its reporting units. The estimated fair value of the Retail, Commercial, and Wealth and Investment Management reporting units exceeded their respective carrying values as of March 31, 2009; however, the fair value of the Household Lending, Corporate and Investment Banking, Commercial Real Estate (included in Retail and Commercial segment), and Affordable Housing (included in Retail and Commercial segment) reporting units were less than their respective carrying values. The implied fair value of goodwill of the Corporate and Investment Banking reporting unit exceeded the carrying value of the goodwill, thus no goodwill impairment was recorded for this reporting unit as of March 31, 2009. However, the implied fair value of goodwill applicable to the Household Lending, Commercial Real Estate, and Affordable Housing

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

reporting units was less than the carrying value of the goodwill. As of March 31, 2009, an impairment loss of $751.2 million was recorded, which was the entire amount of goodwill carried by each of those reporting units. Based on the tax nature of the acquisitions that initially generated the goodwill, $677.4 million of the goodwill impairment charge was non-deductible for tax purposes. The goodwill impairment charge was a direct result of continued deterioration in the real estate markets and macro economic conditions that put downward pressure on the fair value of these businesses. The primary factors contributing to the impairment recognition was further deterioration in the actual and projected financial performance of these reporting units, as evidenced by the increase in net charge-offs and nonperforming loans. These declines reflected the existing economic downturn, which resulted in depressed earnings in these businesses and the significant decline in the Company s market capitalization during the first quarter.

During the second quarter of 2009, the Company performed an updated evaluation of the Corporate and Investment Banking goodwill, which involved estimating the fair value of the reporting unit and the implied fair value of goodwill. The implied fair value of goodwill exceeded the carrying value of goodwill, thus no goodwill impairment was recorded as of June 30, 2009.

The Company completed its annual goodwill impairment test as of September 30, 2009. The estimated fair value of each of the Company s reporting units which carry goodwill exceeded their respective carrying value as of September 30, 2009; therefore, the Company determined there was no impairment of goodwill. The improvement in the estimated fair value of the Corporate and Investment Banking reporting unit was due to increased valuation multiples observed in the market.

Changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2009 are as follows:

(Dollars in thousands)	Retail and Commercial	Wholesale	Corporate and Investment Banking	Household Lending	Mortgage	Wealth and Investment Management	Corporate Other and Treasury	Total
Balance, January 1, 2009	**$5,911,990**	**$522,548**	**$-**	**$-**	**$278,254**	**$330,711**	**$-**	**$7,043,503**
Intersegment transfers [1]	**125,580**	**(522,548)**	**223,307**	**451,915**	**(278,254)**	**-**	**-**	**-**
Goodwill impairment	**(299,241)**	**-**	**-**	**(451,915)**	**-**	**-**	**-**	**(751,156)**
Seix contingent consideration	**-**	**-**	**-**	**-**	**-**	**12,722**	**-**	**12,722**
Purchase of Epic Advisors, Inc.	**-**	**-**	**-**	**-**	**-**	**5,012**	**-**	**5,012**
Other	**474**	**-**	**-**	**-**	**-**	**3,827**	**-**	**4,301**
Balance, September 30, 2009	**$5,738,803**	**$-**	**$223,307**	**$-**	**$-**	**$352,272**	**$-**	**$6,314,382**

[1] Goodwill was reallocated among the reportable segments as a result of the corporate restructuring described in Note 17, Business Segment Reporting, to the Consolidated Financial Statements.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

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

(Dollars in thousands)	Core Deposit Intangibles	Mortgage Servicing Rights- Amortized Cost	Mortgage Servicing Rights- Fair Value	Other	Total
Balance, January 1, 2008	$172,655	$1,049,425	$-	$140,915	$1,362,995
Amortization	(43,761)	(164,546)	-	(15,240)	(223,547)
Mortgage servicing rights (MSRs) originated	-	396,590	-	-	396,590
MSRs impairment reserve	-	(1,881)	-	-	(1,881)
MSRs impairment recovery	-	1,881	-	-	1,881
Sale of interest in Lighthouse Partners	-	-	-	(5,992)	(5,992)
Sale of MSRs	-	(131,456)	-	-	(131,456)
Customer intangible impairment charge	-	-	-	(45,000)	(45,000)
Purchased credit card relationships [3]	-	-	-	9,898	9,898
Acquisition of GB&T	29,510	-	-	-	29,510
Sale of First Mercantile Trust	-	-	-	(3,033)	(3,033)
Balance, September 30, 2008	$158,404	$1,150,013	$-	$81,548	$1,389,965
Balance, January 1, 2009	**$145,311**	**$810,474**	**$-**	**$79,642**	**$1,035,427**
Designated at fair value (transfers from amortized cost)	**-**	**(187,804)**	**187,804**	**-**	**-**
Amortization	**(32,361)**	**(171,895)**	**-**	**(11,323)**	**(215,579)**
MSRs originated	**-**	**-**	**585,516**	**-**	**585,516**
MSRs impairment recovery	**-**	**188,699**	**-**	**-**	**188,699**
Changes in fair value					
Due to changes in inputs or assumptions [1]	**-**	**-**	**70,148**	**-**	**70,148**
Other changes in fair value [2]	**-**	**-**	**(60,226)**	**-**	**(60,226)**
Other	**-**	**-**	**-**	**151**	**151**
Balance, September 30, 2009	**$112,950**	**$639,474**	**$783,242**	**$68,470**	**$1,604,136**

[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 passage of time.

[3] During the third quarter of 2008, SunTrust purchased a credit card portfolio of loans including the cardholder relationships from another financial institution representing an outstanding balance of $82.4 million at the time of acquisition. A majority of the premium paid was attributed to the cardholder relationships and is being amortized over seven years.

The Company elected to create a second class of MSRs effective January 1, 2009. This new class of MSRs is reported at fair value and is being actively hedged as discussed in Note 12, Derivative Financial Instruments, to the Consolidated Financial Statements. MSRs associated with loans originated or sold prior to 2008 continue to be accounted for using the amortized cost method and managed through the Company s overall asset/liability management process. The transfer of MSRs from the amortized cost method to fair value did not have a material effect on the Consolidated Financial Statements since the MSRs were effectively reported at fair value as of December 31, 2008 as a result of impairment losses recognized at the end of 2008.

Note 7 Certain Transfers of Financial Assets, Mortgage Servicing Rights and Variable Interest Entities

Certain Transfers of Financial Assets

The Company has transferred residential and commercial mortgage loans, student loans, commercial and corporate loans, and collateralized debt obligation (CDO) securities in a sale or securitization in which the Company has, or had, continuing involvement. All such transfers have been

accounted for as sales by the Company. The Company s continuing involvement in such transfers has been limited to owning certain beneficial interests, such as securitized debt instruments, and certain servicing or collateral manager responsibilities. Except as specifically noted herein, the Company is not required to provide additional financial support to any of these entities, nor has the Company provided any support it was not obligated to provide. Interests that continue to be held by the Company in transferred financial assets, excluding servicing and collateral management rights, are generally recorded as securities available for sale or trading assets at their allocated carrying amounts based on their relative fair values at the time of transfer and are subsequently remeasured at fair value. For such interests, when quoted market prices are not available, fair value is generally estimated based on the present value of expected cash flows, calculated using management s best estimates of key assumptions, including credit losses, loan repayment speeds, and discount rates commensurate with the risks involved, based on how management believes market participants would determine such assumptions. See Note 15, Fair Value Election and Measurement, to the Consolidated Financial Statements for further discussion of the Company s fair value methodologies. Servicing rights may give rise to servicing assets, which are either initially recognized at fair value, subsequently amortized, and tested for impairment or elected to be carried at fair value. Gains or losses upon sale, in addition to servicing fees and collateral management fees, are recorded in noninterest income. Changes in the fair value of interests that continue to be held by the Company that are accounted for as trading assets or securities available for sale are recorded in trading account profits/(losses) and commissions or as a component of AOCI,

Notes to Consolidated Financial Statements (Unaudited)-Continued

respectively. In the event any decreases in the fair value of such interests that are recorded as securities available for sale are deemed to be other-than-temporary due to underlying credit impairment, the estimated credit component of such loss is recorded in securities gains/(losses). See Note 1, Significant Accounting Policies, to the Consolidated Financial Statements for a discussion of the impacts of SFAS No. 167 on certain of the Company s involvements with VIEs discussed herein.

Residential Mortgage Loans

The Company typically transfers first lien residential mortgage loans in securitization transactions involving QSPEs sponsored by Ginnie Mae, Fannie Mae, and Freddie Mac. These loans are exchanged for cash or securities that are readily redeemed for cash proceeds and servicing rights, which generate servicing assets for the Company. The servicing assets are recorded initially at fair value. Beginning January 1, 2009, the Company began to carry certain mortgage servicing rights at fair value along with servicing rights that were originated in 2008 which were transferred to fair value. See Mortgage Servicing Rights herein and Note 6, Goodwill and Other Intangible Assets, to the Consolidated Financial Statements for further discussion regarding the accounting for servicing rights. In a limited number of securitizations, the Company has transferred loans to QSPEs sponsored by the Company. In these transactions, 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 retained securities are carried at fair value as either trading assets or securities available for sale. The Company has accounted for all transfers of residential mortgage loans to QSPEs as sales and, because the transferees are QSPEs, the Company does not consolidate any of these entities. No events have occurred during the quarter ended September 30, 2009 that changed the status of the QSPEs or the nature of the transactions, which would call into question either the Company s sale accounting or the QSPE status of the transferees.

As seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred to Ginnie Mae, Fannie Mae, and Freddie Mac, which are discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements. Additionally, repurchases of loans from QSPEs sponsored by the Company totaled approximately $17 million in 2008, including approximately $13 million of second lien loans that were substituted with new loans. No additional repurchases occurred during the quarter ended September 30, 2009; however, the Company accrued $13 million in the quarter ended June 30, 2009 for contingent losses related to certain of its representations and warranties made in connection with prior transfers of second lien loans. The Company continues to evaluate all facts and circumstances around these loans and has determined that no adjustments to this accrual were warranted as of September 30, 2009.

Commercial Mortgage Loans

Certain transfers of commercial mortgage loans were executed with third party special purpose entities, which the Company deemed to be QSPEs and did not consolidate. During 2008, the Company sold all of its retained servicing rights, which were not financial assets subject to the accounting for transfers and servicing of financial assets, in exchange for cash proceeds of approximately $6.6 million. As seller, the Company had made certain representations and warranties with respect to the originally transferred loans, but the Company has not incurred any losses with respect to such representations and warranties.

Commercial and Corporate Loans

In 2007, the Company completed a structured sale of corporate loans to multi-seller commercial paper conduits, which are VIEs administered by unrelated third parties, from which it retained a 3% residual interest in the pool of loans transferred, which does not constitute a Variable Interest (VI) in the third party conduits as it relates to the unparticipated portion of the loans. In the first quarter of 2009, the Company wrote this residual interest and related accrued interest to zero, resulting in a loss of approximately $16.6 million, inclusive of accrued interest. This write off was the result of the deterioration in the performance of the loan pool to such an extent that the Company will no longer receive cash flows on the interest until the senior participation interest has been repaid in full. The fair value of the residual at December 31, 2008 was $16.2 million. The Company provides commitments in the form of liquidity facilities to these conduits; the sum of these commitments, which represents the Company s maximum exposure to loss under the facilities, totaled $381.5 million and $500.7 million at September 30, 2009 and December 31, 2008, respectively. Due to deterioration in the loans that collateralize these facilities, the Company recorded a contingent loss reserve of $13.0 million on the facilities during the three months ended September 30, 2009, which was classified in Other Expense in the Consolidated Statements of Income/(Loss). No events have occurred during the quarter ended September 30, 2009 that would call into question either the Company s sale accounting or the Company s conclusions that it is not the primary beneficiary of these VIEs.

14

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

The Company has had involvement with VIEs that own commercial leveraged loans and bonds, certain of which were transferred by the Company to the VIEs. In addition to retaining certain securities issued by the VIEs, the Company also acts as manager or servicer for these VIEs as well as other VIEs that are funds of commercial leveraged loans and high yield bonds. At September 30, 2009 and December 31, 2008, the Company s direct exposure to loss related to these VIEs was approximately $14.8 million and $16.7 million, respectively, which represent the Company s interests in preference shares of these entities. In the first quarter of 2009, the Company recognized losses of $6.8 million which represented the complete write off of the preference shares in certain of the VIEs due to the continued deterioration in the performance of the collateral in those vehicles. The Company does not expect to receive any significant cash distributions on those preference shares in the foreseeable future. At September 30, 2009 and December 31, 2008, total assets of these entities not included on the Company s Consolidated Balance Sheets were approximately $2.8 billion. No reconsideration events, as defined in ASC 810-10, occurred during the quarter ended September 30, 2009 that would change the Company s conclusion that it is not the primary beneficiary of these entities.

Student Loans

In 2006, the Company completed one securitization of student loans through a transfer of loans to a QSPE and retained the corresponding residual interest in the QSPE trust. The fair value of the residual interest at September 30, 2009 and December 31, 2008 was $18.1 million and $13.4 million, respectively. No events have occurred during the quarter ended September 30, 2009 that changed the status of the QSPEs or the nature of the transactions, which would call into question either the Company s sale accounting or the QSPE status of the transferees.

CDO Securities

The Company has transferred bank trust preferred securities in securitization transactions. The majority of these transfers occurred between 2002 and 2005 with one transaction completed in 2007. The Company retained equity interests in certain of these entities and also holds certain senior interests that were acquired during 2007 and 2008 in conjunction with its acquisition of assets from Three Pillars and the auction rate securities (ARS) transactions discussed in Note 16, Contingencies, to the Consolidated Financial Statements. During 2008, the Company recognized impairment losses, net of distributions received, of $15.9 million related to the ownership of its equity interests in these VIEs and, at December 31, 2008, these equity interests had all been written down to a fair value of zero due to increased losses in the underlying collateral. During the quarter ended September 30, 2009, the Company sold its senior interest. The Company is not obligated to provide any support to these entities and its maximum exposure to loss at September 30, 2009 and December 31, 2008 is limited to (i) the current senior interests held in trading securities with a fair value of $29.0 million and $45.0 million, respectively, and (ii) the remaining senior interests expected to be purchased in conjunction with the ARS issue, which have a total fair value of $1.6 million and $9.7 million, respectively. The total assets of the trust preferred CDO entities in which the Company has remaining exposure to loss was $1.4 billion at September 30, 2009 and $2.0 billion at December 31, 2008. No events have occurred during the quarter ended September 30, 2009 that would call into question either the Company s sale accounting or the Company s conclusions that it is not the primary beneficiary of these VIEs.

In 2006, the Company received $472.6 million in proceeds from the transfer of debt securities into a securitization of CDO securities of asset-backed securities (ABS) and residential MBS. The securitization entity was liquidated in 2008.

The following tables present certain information related to the Company s asset transfers in which it has continuing economic involvement for the three and nine months ended September 30, 2009 and September 30, 2008. The Company did not execute any transfers of financial assets from which it retained an interest other than MSRs in the periods presented.

	Three and Nine Months Ended September 30, 2009											
(Dollars in thousands)	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial and Corporate Loans		Student Loans		CDO Securities		Consolidated	
	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date
Cash flows on interests held	**$23,400**	**$75,789**	**$-**	**$-**	**$498**	**$1,200**	**$1,755**	**$5,470**	**$706**	**$2,349**	**$26,359**	**$84,808**
Servicing or management fees	**1,182**	**3,784**	**-**	**-**	**3,556**	**8,404**	**165**	**522**	**-**	**-**	**4,903**	**12,710**

(Dollars in thousands)	Three and Nine Months Ended September 30, 2008											
	Residential Mortgage Loans		Commercial Mortgage Loans		Commercial and Corporate Loans		Student Loans		CDO Securities		Consolidated	
	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date	Third Quarter	Year to Date
Cash flows on interests held	$19,115	$68,939	$-	$-	$4,371	$20,272	$2,030	$6,518	$298	$1,784	$25,814	$97,513
Servicing or management fees	1,433	4,517	62	182	3,445	10,838	203	626	-	-	5,143	16,163

15

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

As transferor, the Company typically provides standard representations and warranties in relation to assets transferred. However, other than the loan substitution discussed previously herein, purchases of assets previously transferred in securitization transactions were insignificant across all categories for all periods presented other than those related to Ginnie Mae, Fannie Mae, and Freddie Mac as discussed in Note 13, Reinsurance Arrangements and Guarantees, to the Consolidated Financial Statements.

The Company s retained interests include senior and subordinated securities in residential mortgage securitization transactions and subordinated interests in securitizations of commercial and corporate loans, student loans and CDO securities. At September 30, 2009, the total fair value of such interests was approximately $273.3 million, as compared to $367.0 million at December 31, 2008. The weighted average remaining lives of the Company s retained interests ranged from approximately 2.5 years to 18 years for interests in residential mortgage loans, commercial and corporate loans, and student loans as of September 30, 2009 and December 31, 2008, with the weighted average remaining life of interests in CDO securities approximating 24 years. To estimate the fair values of these securities, consideration was given to dealer indications of market value, where applicable, as well as the results of discounted cash flow models using key assumptions and inputs for prepayment rates, credit losses, and discount rates. For the majority of the retained interests, the Company has considered the impacts on the fair values of two unfavorable variations from the estimated amounts, related to the fair values of the Company s retained and residual interests, excluding MSRs, which are separately addressed herein. Declines in fair values for the total retained interests due to 10% and 20% adverse changes in the key assumptions and inputs totaled approximately $18.0 million and $32.4 million, respectively, as of September 30, 2009, as compared to approximately $22.2 million and $45.7 million, respectively, as of December 31, 2008. For certain subordinated retained interests in residential mortgage securitizations, the Company uses dealer indicated prices, as the Company believes these price indications more accurately reflect the severe disruption in the market for these securities as opposed to modeling efforts the Company could otherwise undertake. As such, the Company has not evaluated any adverse changes in key assumptions of these values. As of September 30, 2009 and December 31, 2008, the fair values of these subordinated interests were $2.8 million and $4.4 million respectively, based on weighted average prices of 9.7% and 12.3% of par, respectively. Expected static pool losses were approximately 0.4% to 9% for interests related to securitizations of residential mortgage loans as of September 30, 2009. Expected static pool losses were approximately 5% or less for residential mortgage loans and commercial and corporate loans, as of December 31, 2008. For interests related to securitizations of CDO securities, expected static pool losses ranged from approximately 29% to 35% and 23% to 31% as of September 30, 2009 and December 31, 2008, respectively.

Portfolio balances and delinquency balances based on 90 days or more past due (including accruing and nonaccrual loans) as of September 30, 2009 and December 31, 2008, and net charge-offs related to managed portfolio loans (both those that are owned by the Company and those that have been transferred) for the three and nine month periods ended September 30, 2009 and September 30, 2008 are as follows:

	Principal Balance		Past Due		Net Charge-offs			
					For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in millions)	**September 30, 2009**	December 31, 2008	**September 30, 2009**	December 31, 2008	**2009**	2008	**2009**	2008
Type of loan:								
Commercial	**$33,491.7**	$41,039.9	**$634.5**	$340.9	**$195.6**	$49.0	**$476.9**	$111.6
Residential mortgage and home equity	**47,743.7**	48,520.2	**3,929.0**	2,727.6	**566.3**	246.7	**1,417.7**	664.5
Commercial real estate and construction	**22,673.3**	24,821.1	**1,950.3**	1,492.6	**177.5**	50.1	**345.9**	109.0
Consumer	**11,622.6**	11,646.9	**439.3**	411.1	**43.2**	37.5	**114.7**	107.6
Credit card	**956.6**	970.3	**-**	-	**23.4**	8.9	**62.1**	19.2
Total loan portfolio	**116,487.9**	126,998.4	**6,953.1**	4,972.2	**1,006.0**	392.2	**2,417.3**	1,011.9
Managed securitized loans								
Commercial	**3,575.1**	3,766.8	**83.5**	30.2	**(4.3)**	-	**15.6**	-
Residential mortgage	**1,559.0**	1,836.2	**119.8**	132.2	**9.9**	7.1	**33.7**	16.8
Other	**518.9**	565.2	**27.6**	61.6	**0.1**	0.1	**0.3**	0.2
Total managed loans	**$122,140.9**	$133,166.6	**$7,184.0**	$5,196.2	**$1,011.7**	$399.4	**$2,466.9**	$1,028.9

Residential mortgage loans securitized through Ginnie Mae, Fannie Mae, and Freddie Mac have been excluded from the tables above since the Company does not retain any beneficial interests or other continuing involvement in the loans other than servicing responsibilities on behalf of Ginnie Mae, Fannie Mae, and Freddie Mac, and repurchase contingencies under standard representations and warranties made with respect to the transferred mortgage loans. The total amount of loans serviced by the Company as a result of such securitization transactions totaled $125.0 billion and $106.6 billion at September 30, 2009 and December 31, 2008, respectively. Related servicing fees received by the Company during the three and nine month periods ended September 30, 2009 and September 30, 2008 were $86.1 million and $76.0 million and $240.8 million and $221.3 million, respectively.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

Mortgage Servicing Rights

In addition to other interests that continue to be held by the Company in the form of securities, the Company also 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. The Company maintains two classes of MSRs: MSRs related to loans originated and sold after January 1, 2008, which are reported at fair value and MSRs related to loans sold before January 1, 2008, which are reported at amortized cost, net of any allowance for impairment losses. Any impacts of this activity are reflected in the Company s Consolidated Statements of Income/(Loss) in mortgage servicing-related income. See Note 6, Goodwill and Other Intangible Assets , to the Consolidated Financial Statements for the rollforward of MSRs.

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and nine month periods ended September 30, 2009 and September 30, 2008 was $92.7 million and $93.0 million and $256.3 million and $265.1 million, respectively. These amounts are reported in mortgage servicing-related income in the Consolidated Statements of Income/(Loss).

As of September 30, 2009 and December 31, 2008, the total unpaid principal balance of mortgage loans serviced was $177.6 billion and $162.0 billion, respectively. Included in these amounts were $145.2 billion and $130.5 billion as of September 30, 2009 and December 31, 2008, respectively, of loans serviced for third parties. As of September 30, 2009 and December 31, 2008, the Company had established MSRs valuation allowances of $17.2 million and $370.0 million, respectively. No permanent impairment losses were recorded against the allowance, with respect to MSRs carried at amortized cost, during the year ended December 31, 2008 or the nine months ended September 30, 2009.

A summary of the key characteristics, inputs, and economic assumptions used to estimate the fair value of the Company s MSRs and the sensitivity of the September 30, 2009 and December 31, 2008 fair values to immediate 10% and 20% adverse changes in those assumptions follows.

(Dollars in millions)	**2009 Fair Value**	**2009 Lower of Cost or Market**	Total 2008 Lower of Cost or Market
Fair value of retained MSRs	**$783.2**	**$690.7**	$815.6
Prepayment rate assumption (annual)	**13.5%**	**22.4%**	32.8%
Decline in fair value of 10% adverse change	**$32.5**	**$39.3**	$61.2
Decline in fair value of 20% adverse change	**62.3**	**74.6**	113.8
Discount rate (annual)	**9.8%**	**10.0%**	9.3%
Decline in fair value of 10% adverse change	**$30.8**	**$18.0**	$17.9
Decline in fair value of 20% adverse change	**59.4**	**35.2**	35.0
Weighted-average life (in years)	**6.49**	**3.90**	2.50
Weighted-average coupon	**5.31**	**6.13**	6.15

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.

Variable Interest Entities

In addition to the Company s involvement with certain VIEs, which is discussed herein under Certain Transfers of Financial Assets , the Company also has involvement with VIEs from other business activities.

Three Pillars Funding, LLC

SunTrust assists in providing liquidity to select corporate clients by directing them to a multi-seller commercial paper conduit, Three Pillars. Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust s corporate clients. Three Pillars has historically financed this activity by issuing A-1/P-1 rated commercial paper (CP); however, in the second quarter of 2009, Three Pillars CP was downgraded to A-2/P-1 due to the downgrade to A-/A2 of SunTrust Bank (the Bank), which provides liquidity and credit enhancement to Three Pillars. This downgrade was not a

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

reflection of the asset quality of Three Pillars. Three Pillars had no other form of senior funding outstanding, other than CP, as of September 30, 2009 or December 31, 2008. (See below where the impacts of the downgrade are further discussed)

The Company s involvement with Three Pillars includes the following activities: services related to the administration of Three Pillars activities and client referrals to Three Pillars; the issuing of letters of credit, which provide partial credit protection to the CP holders; and providing liquidity arrangements that would provide funding to Three Pillars in the event it can no longer issue CP or in certain other circumstances. The Company s activities with Three Pillars generated total fee revenue for the Company, net of direct salary and administrative costs incurred by the Company, of approximately $15.9 million and $13.2 million, and $49.1 million and $35.4 million, for the three and nine month periods ended September 30, 2009 and 2008, respectively.

Three Pillars has issued a subordinated note to a third party, which matures in March 2015; however, the note holder may declare the note due and payable upon an event of default, which includes any loss drawn on the note funding account that remains unreimbursed for 90 days. The subordinated note holder absorbs the first dollar of loss in the event of nonpayment of any of Three Pillars assets. Only the remaining balance of the first loss note, after any incurred losses, would be due. If the first loss note holder declared its loss note due under such circumstances and a new first loss note or other first loss protection was not obtained, the Company would likely consolidate Three Pillars on a prospective basis. The outstanding and committed amounts of the subordinated note were $20.0 million at September 30, 2009 and December 31, 2008, and no losses had been incurred through September 30, 2009.

The Company has determined that Three Pillars is a VIE, as Three Pillars has not issued sufficient equity at risk, as defined by ASC 810-10. The Company and the holder of the subordinated note are the two significant VI holders in Three Pillars. The Company and this note holder are not related parties or de facto agents of one another. The Company uses a mathematical model that calculates the expected losses and expected residual returns of Three Pillars assets and operations, based on a Monte Carlo simulation, and allocates each to the Company and the holder of the subordinated note. The results of this model, which the Company evaluates monthly, have shown that the holder of the subordinated note absorbs the majority of the variability of Three Pillars expected losses. The Company believes the subordinated note is sized in an amount sufficient to absorb the expected loss of Three Pillars based on current commitment levels and the forecasted growth in Three Pillars assets; as such, the Company has concluded it is not Three Pillars primary beneficiary and is not required to consolidate Three Pillars. Should future losses reduce the subordinated note funding account below its required level or if the note is reduced to a size deemed insufficient to support the forecasted or actual growth of the assets in Three Pillars, the Company would likely be required to consolidate Three Pillars, if an amendment of the current subordinate note or a new subordinate note could not be obtained. The Company currently believes that any events related to the credit quality of Three Pillars assets that may result in consolidation are unlikely to occur. See Note 1, Significant Accounting Policies, to the Consolidated Financial Statements for a discussion of the impacts of SFAS No. 167 on the Company s involvement with Three Pillars.

As of September 30, 2009 and December 31, 2008, Three Pillars had client assets not included on the Company s Consolidated Balance Sheets of approximately $2.2 billion and $3.5 billion, respectively, consisting primarily of secured loans. Funding commitments and outstanding receivables extended by Three Pillars to its customers totaled $4.1 billion and $2.2 billion, respectively, as of September 30, 2009, almost all of which renew annually, as compared to $5.9 billion and $3.5 billion, respectively, as of December 31, 2008. The majority of the commitments are backed by trade receivables and commercial loans that have been originated by companies operating across a number of industries which collateralize 50% and 16%, respectively, of the outstanding commitments, as of September 30, 2009, as compared to 47% and 20%, respectively, as of December 31, 2008. Assets supporting those commitments have a weighted average life of 1.20 years and 1.52 years at September 30, 2009 and December 31, 2008, respectively. At September 30, 2009, Three Pillars outstanding CP used to fund the assets totaled $2.2 billion, with remaining weighted average lives of 10.7 days and maturities through November 2009.

Each transaction added to Three Pillars is typically structured to a minimum implied A/A2 rating according to established credit and underwriting policies as approved by credit risk management and monitored on a regular basis to ensure compliance with each transaction s terms and conditions. Typically, transactions contain dynamic credit enhancement features that provide increased credit protection in the event asset performance deteriorates. If asset performance deteriorates beyond predetermined covenant levels, the transaction could become ineligible for continued funding by Three Pillars. This could result in the transaction being amended with the approval of credit risk management, or Three Pillars could terminate the transaction and enforce any rights or remedies available, including amortization of the transaction or liquidation of the collateral. In addition, Three Pillars has the option to fund under the liquidity facility provided by the Bank in connection with the transaction and may be required to fund under the liquidity facility if the transaction remains in breach. In addition, each commitment renewal requires credit risk management approval. The Company is not aware of unfavorable trends related to Three Pillars assets for which the Company expects to suffer material losses. During the nine months ended September 30, 2009 and 2008, there were no write-downs of Three Pillars assets.

Notes to Consolidated Financial Statements (Unaudited)-Continued

During the month of September 2008, the illiquid markets put a significant strain on the CP market and, as a result of this temporary disruption, the Company purchased approximately $275.4 million par amount of Three Pillars overnight CP, none of which was outstanding at December 31, 2008. Separate from the temporary disruption in the CP markets in September 2008, the Company held outstanding Three Pillars CP at December 31, 2008 with a par amount of $400 million, all of which matured on January 9, 2009. None of the Company s purchases of CP during 2008 altered the Company s conclusion that it is not the primary beneficiary of Three Pillars.

The downgrade of Three Pillars credit rating to A-2 by S&P during the three months ended June 30, 2009 negatively impacted its ability to issue CP to third party investors. Subsequent to the S&P downgrade, the Company successfully completed its capital plan under the stress test , which included a successful common equity raise and tender offer for certain of its preferred stock and hybrid debt instruments. Additionally, in June 2009, Three Pillars received an F-1 rating from Fitch and chose to replace S&P s A-2 rating, which was simultaneously withdrawn. As such, Three Pillars CP now carries an F-1/P-1 rating, which has allowed Three Pillars to issue approximately 36%, on average, of its CP to investors other than the Company during the quarter ended September 30, 2009. The Company anticipates its purchases of CP will continue to decline over time. At September 30, 2009, the Company held approximately $1.3 billion of overnight CP at estimated market rates. The purchases of CP by the Company did not alter the allocation of variability within Three Pillars in a manner that was not originally considered, nor was it a means for the Company to provide non-contractual support to Three Pillars in order to protect any VI holders from losses. The predominant driver of risk is the credit risk of the underlying assets owned by Three Pillars, and S&P s downgrade was not in response to any credit deterioration in these assets. Further, the subordinated note holder remains exposed to the majority of variability in expected losses in Three Pillars to the same degree it had prior to any purchases of CP by the Company. The Company s at-market purchases of CP do not impact the interest rates paid by the clients of Three Pillars, as they are obligated to pay a pass through rate based on the rate at which Three Pillars issues CP. After evaluating all facts and circumstances, the Company concluded that the results of the mathematical model that the Company uses to support its conclusion that it is not the primary beneficiary of Three Pillars have not changed, the design of Three Pillars has not changed, and the purchases of CP by the Company has not given rise to an implicit VI in Three Pillars that would result in the Company becoming the primary beneficiary of Three Pillars. The Company will continue to monitor the key considerations surrounding determining Three Pillars primary beneficiary.

The Company has off-balance sheet commitments in the form of liquidity facilities and other credit enhancements that it has provided to Three Pillars. These commitments are accounted for as financial guarantees by the Company. The liquidity commitments are revolving facilities that are sized based on the current commitments provided by Three Pillars to its customers. The liquidity facilities are generally used if new CP cannot be issued by Three Pillars to repay maturing CP. However, the liquidity facilities are available in all circumstances, except certain bankruptcy-related events with respect to Three Pillars. Draws on the facilities are subject to the purchase price (or borrowing base) formula that, in many cases, excludes defaulted assets to the extent that they exceed available over-collateralization in the form of non-defaulted assets, and may also provide the liquidity banks with loss protection equal to a portion of the loss protection provided for in the related securitization agreement. Additionally, there are transaction specific covenants and triggers that are tied to the performance of the assets of the relevant seller/servicer that may result in a transaction termination event, which, if continuing, would require funding through the related liquidity facility. Finally, in a termination event of Three Pillars, such as if its tangible net worth falls below $5,000 for a period in excess of 15 days, Three Pillars would be unable to issue CP, which would likely result in funding through the liquidity facilities. Draws under the credit enhancement are also available in all circumstances, but are generally used to the extent required to make payment on any maturing CP if there are insufficient funds from collections of receivables or the use of liquidity facilities. The required amount of credit enhancement at Three Pillars will vary from time to time as new receivable pools are purchased or removed from its asset portfolio, but is generally equal to 10% of the aggregate commitments of Three Pillars.

The total notional amounts of the liquidity facilities and other credit enhancements represent the Company s maximum exposure to potential loss, which was $4.2 billion and $414.4 million, respectively, as of September 30, 2009, compared to $6.1 billion and $597.5 million, respectively, as of December 31, 2008. The Company did not have any liability recognized on its Consolidated Balance Sheets related to these liquidity facilities and other credit enhancements as of September 30, 2009 or December 31, 2008, as no amounts had been drawn, nor were any draws probable to occur, such that a loss should have been accrued. In addition, no losses were recognized by the Company in connection with these off-balance sheet commitments during the three and nine month periods ended September 30, 2009 or 2008. There are no other contractual arrangements that the Company plans to enter into with Three Pillars to provide it additional support.

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)-Continued

Total Return Swaps (TRS   )

The Company has had involvement with various VIEs related to its TRS business. The Company decided to temporarily suspend this business in late 2008 and terminated its existing transactions during 2009. Under the TRS business model, the VIEs purchase portfolios of loans at the direction of third parties. These third parties are not related parties to the Company, nor are they and the Company de facto agents of each other. In order for the VIEs to purchase the loans, the Company provides senior financing to these VIEs. At December 31, 2008, the Company had $603.4 million in such financing outstanding, which is classified within trading assets on the Consolidated Balance Sheets. In addition, the Company also enters into TRS transactions with the VIEs that the Company mirrors with a TRS with the third party who controls the loans owned by the VIE. The TRS transactions pass through all interest and other cash flows on the loans to the third party, along with exposing the third parties to any depreciation on the loans and providing them with the rights to all appreciation on the loans. The terms of the TRS transactions require the third parties to post initial margin, in addition to ongoing margin as the fair values of the underlying loans decrease. The Company has concluded that it is not the primary beneficiary of these VIEs, as the VIEs are designed for the benefit of the third parties. The third parties have implicit VIs in the VIEs via their TRS transactions with th