SunTrust Banks, Inc.
Basel III Supplementary Disclosures

As of and for the quarter ended June 30, 2019

Table of Contents

Glossary of defined terms........ 1
Disclosure matrix........ 2
Overview........ 9
Capital adequacy........ 14
Credit risk........ 17
Securitizations........ 27
Equities not subject to the Market Risk Rule........ 30
Interest rate risk for non-trading activities........ 31

GLOSSARY OF DEFINED TERMS

AA - Advanced approaches.
ABS - Asset-backed securities.
AFS - Available for sale.
ALLL - Allowance for loan and lease losses.
AOCI - Accumulated other comprehensive income.
Bank - SunTrust Bank.
Basel III - Third Basel Accord, a comprehensive set of reform measures developed by the Basel Committee on Banking Supervision.
BB&T — BB&T Corporation.
BHC - Bank holding company.
BOLI - Bank-owned life insurance.
BRC - Board Risk Committee.
Call Report - Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices (FFIEC 031).
CCAR - Comprehensive Capital Analysis and Review.
CCB - Capital conservation buffer.
CCP - Central counterparty.
CDO - Collateralized debt obligation.
CDS - Credit default swaps.
CET1 - Common Equity Tier 1 Capital.
CLO - Collateralized loan obligation.
Company - SunTrust Banks, Inc.
CRE - Commercial real estate.
CSA - Credit support annex.
CVA - Credit valuation adjustment.
DTA - Deferred tax asset.
DVA - Debit valuation adjustment.
FDIC - Federal Deposit Insurance Corporation.
FFIEC - Federal Financial Institutions Examination Council.
FHA - Federal Housing Administration.
FHLB - Federal Home Loan Bank.
Final Rule - Basel III Regulatory Capital Rules as published by the Federal Reserve in section 12 CFR 217 of the Federal Register.
FINRA - Financial Industry Regulatory Authority.
Form 10-K - Annual Report on Form 10-K for the fiscal year ended December 31, 2018.
Form 10-Q - Quarterly Report on Form 10-Q for the three months ended June 30, 2019.
FRB - Board of Governors of the Federal Reserve System.
HVCRE - High volatility commercial real estate.
ISDA - International Swaps and Derivatives Association.
LGD - Loss given default.
LHFI - Loans held for investment.
LHFS - Loans held for sale.
MBS - Mortgage-backed securities.
MDB - Multilateral Development Bank.
Merger — the Company's proposed merger-of-equals with BB&T that was announced on February 7, 2019.
MSR - Mortgage servicing right.
NPR - Notice of proposed rulemaking.
OCC - Office of the Comptroller of the Currency.
OTC - Over-the-counter.
PD - Probability of default.
PFE - Potential future exposure.
PSE - Public sector entities.
RWA - Risk-weighted assets.
SA - Standardized approach.
SBA - Small Business Administration.
SCB - Stress capital buffer.
SCC - SunTrust Capital Committee.
SEC - U.S. Securities and Exchange Commission.
SPE - Special purpose entity.
SRWA - Simple risk-weight approach.
SSFA - Simplified supervisory formula approach.
SunTrust - SunTrust Banks, Inc.
TDR - Troubled debt restructuring.
TRS - Total return swaps.
U.S. - United States.
U.S. GAAP - Generally Accepted Accounting Principles in the United States.
VAR - Value at risk.
Y-9C - Reporting Form FR Y-9C - Consolidated Financial Statements for Holding Companies.

Disclosure matrix

Section	Disclosure	Location	Section Page(s) # or Schedule
Scope of Application			
(a)	The name of the top corporate entity in the group to which the SA for RWA applies.	Herein	p.9
(b)	A brief description of the differences in the basis for consolidating entities for accounting and regulatory purposes, with a description of those entities: (1) That are fully consolidated; (2) That are deconsolidated and deducted from total capital; (3) For which the total capital requirement is deducted; and (4) That are neither consolidated nor deducted (for example, where the investment in the entity is assigned a risk weight in accordance with the SA).	Herein	p.9
(c)	Any restrictions, or other major impediments, on transfer of funds or total capital within the group.	**Form 10-K:** Note 15 MD&A - Capital Resources **Form 10-Q:** MD&A - Capital Resources	 p.128-129 p.51-53 p. 85-87
(d)	The aggregate amount of surplus capital of insurance subsidiaries included in the total capital of the consolidated group.	Herein	p.15
(e)	The aggregate amount by which actual total capital is less than the minimum total capital requirement in all subsidiaries, with total capital requirements and the name(s) of the subsidiaries with such deficiencies.	N/A	N/A
Capital Structure			
(a)	Summary information on the terms and conditions of the main features of all regulatory capital instruments.	**Form 10-K:** Note 15 MD&A - Capital Resources	 p.128-129 p.51-53
(b)	The amount of CET1, with separate disclosure of: (1) Common stock and related surplus; (2) Retained earnings; (3) Common equity minority interest; (4) AOCI; and (5) Regulatory adjustments and deductions made to CET1.	Y-9C	Schedule HC-R
(c)	The amount of tier 1 capital, with separate disclosure of: (1) Additional tier 1 capital elements, including additional tier 1 capital instruments and tier 1 minority interest not included in common equity tier 1 capital; and (2) Regulatory adjustments and deductions made to tier 1 capital.	Y-9C	Schedule HC-R

Section	Disclosure	Location	Section Page(s) # or Schedule
(d)	The amount of total capital, with separate disclosure of: (1) Tier 2 capital elements, including tier 2 capital instruments and total capital minority interest not included in tier 1 capital; and (2) Regulatory adjustments and deductions made to total capital.	Y-9C	Schedule HC-R
Capital Adequacy			
(a)	A summary discussion of the Company's approach to assessing the adequacy of its capital to support current and future activities.	Herein	p.14
(b)	RWA for: (1) Exposures to sovereign entities; (2) Exposures to certain supranational entities and MDBs; (3) Exposures to depository institutions, foreign banks, and credit unions; (4) Exposures to PSEs; (5) Corporate exposures; (6) Residential mortgage exposures; (7) Statutory multifamily mortgages and pre-sold construction loans; (8) HVCRE loans; (9) Past due loans; (10) Other assets; (11) Cleared transactions; (12) Default fund contributions; (13) Unsettled transactions; (14) Securitization exposures; and (15) Equity exposures.	Herein	p.15
(c)	Standardized market risk-weighted assets as calculated under the Market Risk Rule.	Y-9C	Schedule HC-R
(d)	CET1, tier 1 and total risk-based capital ratios: (1) For the top consolidated group; and (2) For each depository institution subsidiary.	Y-9C Call Report	Schedule HC-R Schedule RC-R
(e)	Total standardized risk-weighted assets.	Y-9C	Schedule HC-R
Capital Conservation Buffer			
(a)	The CCB as described under the Final Rule.	Y-9C	Schedule HC-R
(b)	The eligible retained income, as described under the Final Rule.	Y-9C	Schedule HC-R
(c)	Any limitations on distributions and discretionary bonus payments resulting from the CCB framework as described under the Final Rule, including the maximum payout amount for the quarter.	Y-9C	Schedule HC-R

Section	Disclosure	Location	Section Page(s) # or Schedule
Credit Risk: General Disclosures			
(a)	The general qualitative disclosure requirement with respect to credit risk (excluding counterparty credit risk that is disclosed in *General Disclosure For Counterparty Credit Risk-Related Exposures* located below), including the: (1) Policy for determining past due or delinquency status; (2) Policy for placing loans on nonaccrual; (3) Policy for returning loans to accrual status; (4) Definition of and policy for identifying impaired loans (for financial accounting purposes); (5) Description of the methodology that is used to estimate the allowance for loan and lease losses, including statistical methods used where applicable; (6) Policy for charging-off uncollectible amounts; and (7) Discussion of the credit risk management policy.	**Form 10-K:** Note 1 Note 7 MD&A - Critical Accounting Policies MD&A - Enterprise Risk Management **Form 10-Q:** Note 6	 p.84-95 p.107-114 p.53-56 p.56-66 p. 19-26
(b)	Total credit risk exposures and average credit risk exposures, after applying accounting offsets in accordance with GAAP, over the period categorized by major types of credit exposure.	Herein	p.18
(c)	Geographic distribution of exposures, categorized in significant areas by major types of credit exposure.	Herein	p.18-20
(d)	Industry or counterparty type distribution of exposures, categorized by major types of credit exposure.	Herein	p. 18, 21
(e)	By major industry or counterparty type: (1) Amount of impaired loans for which there was a related allowance under GAAP; (2) Amount of impaired loans for which there was no related allowance under GAAP; (3) Amount of loans past due 90 days and on nonaccrual; (4) Amount of loans past due 90 days and still accruing; (5) The balance in the allowance for loan and lease losses at the end of each period, disaggregated on the basis of impairment method; and (6) Charge-offs during the period.	Herein; **Form 10-Q:** Note 6	p.21 p.19-26
(f)	Amount of impaired loans and, if available, the amount of past due loans categorized by significant geographic area including, if practical, the amounts of allowances related to each geographical area, further categorized as required by GAAP.	Herein	p.19-20
(g)	Reconciliation of changes in ALLL.	**Form 10-Q:** Note 7 MD&A - Table 6	 p.27-28 p.80
(h)	Remaining contractual maturity delineation of the whole portfolio, categorized by credit exposure.	Herein	p.18, 22

Section	Disclosure	Location	Section Page(s) # or Schedule
General Disclosure For Counterparty Credit Risk-Related Exposures			
(a)	General qualitative disclosures with respect to OTC derivatives, eligible margin loans, and repo-style transactions, including a discussion of: (1) The methodology used to assign credit limits for counterparty credit exposures; (2) Policies for securing collateral, valuing and managing collateral, and establishing credit reserves; (3) The primary types of collateral taken; and (4) The impact of the amount of collateral the Company would have to provide given a deterioration in the Company's own creditworthiness.	Herein; **Form 10-Q:** Note 3 Note 16	p.22-24 p.13-14 p.42-49
(b)	Gross positive fair value of contracts, collateral held (including type, for example, cash, government securities), and net unsecured credit exposure. Disclose the notional value of credit derivative hedges purchased for counterparty credit risk protection and the distribution of current credit exposure by exposure type.	Herein	p.25
(c)	Notional amount of purchased and sold credit derivatives, segregated between use for the Company's own credit portfolio and in its intermediation activities, including the distribution of the credit derivative products used, categorized further by protection bought and sold within each product group.	Herein	p.26
Credit Risk Mitigation			
(a)	General qualitative disclosures with respect to credit risk mitigation, including: (1) Policies and processes for collateral valuation and management; (2) A description of the main types of collateral taken; (3) The main types of guarantors/credit derivative counterparties and their creditworthiness; and (4) Information about (market or credit) risk concentrations with respect to credit risk mitigation.	Herein; **Form 10-K:** Note 1 Note 5 Note 7 Note 19	p.17, 26 p.84-95 p.102 p.107-114 p.141-148
(b)	For each separately disclosed credit risk portfolio, the total exposure that is covered by eligible financial collateral, and after the application of haircuts.	Herein	p.26
(c)	For each separately disclosed portfolio, the total exposure that is covered by guarantees/ credit derivatives and the RWA amount associated with that exposure.	Herein	p.27

Section	Disclosure	Location	Section Page(s) # or Schedule
Securitizations			
(a)	General qualitative disclosures with respect to a securitization (including synthetic securitizations), including a discussion of: (1) Objectives for securitizing assets, including the extent to which these activities transfer credit risk of the underlying exposures to other entities and including the type of risks assumed and retained by the Company related to resecuritization activity; (2) The nature of the risks (e.g., liquidity risk) inherent in the securitized assets; (3) The roles played by the Company in the securitization process and an indication of the extent of its involvement in each of them; (4) The processes in place to monitor changes in the credit and market risk of securitization exposures, including how those processes differ for resecuritization exposures; (5) The Company's policy for mitigating the credit risk retained through securitization and resecuritization exposures; and (6) The risk-based capital approaches that are followed for securitization exposures, including the type of securitization exposure to which each approach applies.	Herein; **Form 10-K:** Note 1 Note 12 Note 20	p.27-29 p.84-95 p.122-124 p.149-162
(b)	A list of: (1) The type of securitization SPEs that the Company, as sponsor, uses to securitize third-party exposures and an indication of whether the exposure to these SPEs is on- or off-balance sheet; and (2) Affiliated entities: (i) That the Company manages or advises; and (ii) That invest either in the securitization exposures that the Company has securitized or in securitization SPEs that the Company sponsors.	Herein	p.27-29
(c)	Summary of accounting policies for securitization activities, including: (1) Whether the transactions are treated as sales or financings; (2) Recognition of gain on sale; (3) Methods and key assumptions applied in valuing retained or purchased interests; (4) Changes in methods and key assumptions from the previous period for valuing retained interests and impact of the changes; (5) Treatment of synthetic securitizations; (6) How exposures intended to be securitized are valued and whether they are recorded under the SA; and (7) Policies for recognizing liabilities on the balance sheet for arrangements that could require the Company to provide financial support for securitized assets.	Herein; **Form 10-K:** Note 1 Note 12 Note 20	p.27-29 p.84-95 p.122-124 p.149-162
(d)	An explanation of significant changes to any quantitative information since the last reporting period.	Herein	p.29
(e)	The total outstanding exposures securitized by the Company in securitizations that meet the operational criteria provided in the SA (categorized into traditional and synthetic securitizations), by exposure type, separately for securitizations of third-party exposures for which the bank acts only as sponsor.	Herein	p.30

Section	Disclosure	Location	Section Page(s) # or Schedule
(f)	For exposures securitized by the Company in securitizations that meet the operational criteria in the SA: (1) Amount of securitized assets that are impaired/past due, categorized by exposure type; and (2) Losses recognized during the current period, categorized by exposure type.	Herein	p.29
(g)	The total amount of outstanding exposures intended to be securitized, categorized by exposure type.	Herein	p.28
(h)	Aggregate amount of: (1) On-balance sheet securitization exposures retained or purchased, categorized by exposure type; and (2) Off-balance sheet securitization exposures, categorized by exposure type.	Herein	p.30
(i)	(1) Aggregate amount of securitization exposures retained or purchased and the associated capital requirements for these exposures, categorized between securitization and resecuritization exposures, further categorized into a meaningful number of risk weight bands and by risk-based capital approach (e.g., SSFA); and (2) Exposures that have been deducted entirely from tier 1 capital, credit-enhancing interest-only strips deducted from total capital, and other exposures deducted from total capital should be disclosed separately by exposure type.	Herein N/A	p.30 N/A
(j)	Summary of securitization activity in the current year, including the amount of exposures securitized (by exposure type), and recognized gain or loss on sale by exposure type.	N/A	N/A
(k)	Aggregate amount of resecuritization exposures retained or purchased, categorized according to: (1) Exposures to which credit risk mitigation is applied, and not applied; and (2) Exposures to guarantors categorized according to guarantor creditworthiness categories or guarantor name.	N/A	N/A
Equities Not Subject To The Market Risk Rule			
(a)	General qualitative disclosures with respect to equity risk for equities not subject to the Market Risk Rule, including: (1) Differentiation between holdings on which capital gains are expected and capital gains taken under other objectives including for relationship and strategic reasons; and (2) Discussion of policies addressing the valuation of and accounting for equity holdings not subject to the Market Risk Rule. This includes a discussion of key assumptions and practices affecting valuation as well as significant changes in these practices.	Herein	p.30-31
(b)	Value disclosed on the balance sheet of investments, as well as the fair value of those investments; for securities that are publicly traded, a comparison to publicly-quoted share values where the share price is materially different from fair value.	Herein	p.31

Section	Disclosure	Location	Section Page(s) # or Schedule
(c)	The types and nature of investments, including the amount that is: (1) Publicly traded; and (2) Non publicly traded.	Herein	p.31
(d)	The cumulative realized gains (losses) arising from sales and liquidations in the reporting period.	Herein	p.31
(e)	(1) Total unrealized gains (losses). (2) Total latent revaluation gains (losses). (3) Any amounts of the above included in tier 1 or tier 2 capital.	Herein	p.31
(f)	Equity groupings categorized by capital requirements, consistent with the Company's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition regarding regulatory capital requirements.	Herein	p.31
Interest Rate Risk For Non-Trading Activities			
(a)	General qualitative disclosures, including the nature of interest rate risk for non-trading activities and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of measurement of interest rate risk for non-trading activities.	**Form 10-Q:** MD&A - Market Risk from Non-Trading Activities	p.87
(b)	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk for non-trading activities, categorized by currency (as appropriate).	**Form 10-Q:** MD&A - Market Risk from Non-Trading Activities	p.87

Overview

SunTrust Banks, Inc. (“we,” “us,” “our,” “SunTrust,” or “the Company”) is a leading provider of financial services, with our headquarters located in Atlanta, Georgia. We are an organization driven by our Company purpose of Lighting the Way to Financial Well-Being — helping instill a sense of confidence in the financial circumstances of clients, communities, teammates, and owners is at the center of everything we do. Our principal subsidiary is SunTrust Bank (“the Bank”). The Company was incorporated in the State of Georgia in 1984 and offers a full line of financial services for consumers, businesses, corporations, institutions, and not-for-profit entities, both through branches (located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia) and through other digital and national delivery channels. The Bank offers deposit, credit, mortgage banking, and trust and investment services to its clients through a selection of full-, self-, and assisted-service channels, including branch, call center, Teller Connect™ machines, ATMs, online, mobile, and tablet. Other subsidiaries provide capital markets, securities brokerage, investment banking, and wealth management services.

The Bank is an FDIC-insured commercial bank chartered under the laws of the State of Georgia and is a member of the Federal Reserve System. In addition to regulation by the FRB, the Bank and the Company are regulated by the Georgia Department of Banking and Finance. The FDIC also has jurisdiction over certain activities of the Bank as an insured depository institution. As a Georgia-chartered commercial bank, the Bank's powers are limited to activities permitted by Georgia and federal banking laws. Generally, the Bank may engage in all usual banking activities, such as taking deposits, lending money, issuing letters of credit, currency trading, and offering safe deposit box services. The Company is also regulated and supervised by the Consumer Financial Protection Bureau. The Company's non-bank subsidiaries are regulated and supervised by various other regulatory bodies, including the SEC and FINRA.

On February 7, 2019, the Company announced that its Board approved a definitive agreement to combine with BB&T Corporation (“BB&T”) in an all-stock Merger. Under the terms of the Agreement and Plan of Merger (the “Merger Agreement”), shareholders will have the right to receive 1.295 shares of BB&T common stock for each share of the Company's common stock. A new corporate headquarters for the combined company has been announced and will be established in Charlotte, North Carolina. It will operate under the new name and brand, Truist Financial Corporation, while the combined company's board of directors and executive management team will be evenly split between SunTrust and BB&T. The Company's Merger with BB&T is expected to close in the second half of 2019, subject to satisfaction of customary closing conditions, including receipt of remaining regulatory approvals.

On July 10, 2019, BB&T received regulatory approval from the North Carolina Commissioner of Banks for the Merger. On July 16, 2019, SunTrust and BB&T announced a Truist Bank Community Benefits Plan (the “Plan”) under which the combined company will invest, lend, or donate a total of $60 billion to low- and moderate-income borrowers and communities over a three-year period from 2020 to 2022. The Plan represents an increase in the comparable community investment, lending, and philanthropy of SunTrust and BB&T, and is an important opportunity of the Merger. On July 30, 2019, SunTrust and BB&T shareholders approved the Merger. In addition, BB&T's shareholders approved Truist Financial Corporation to be the name of the combined company.

The Company and its subsidiaries record transactions and report results in accordance with U.S. GAAP, including the consolidation of entities. There is no difference in the basis of consolidation for accounting and regulatory purposes.

Basel III overview

In 2013, U.S. banking regulators published the Final Rule implementing Basel III, which enhanced the regulatory capital requirements for U.S. banks. Basel III includes two comprehensive methodologies for calculating risk-weighted assets: a Standardized Approach (SA) for banks with consolidated assets less than $250 billion or less than $10 billion in on-balance sheet foreign exposures and an Advanced Approach (AA) for banks with $250 billion or more in consolidated assets or on-balance sheet foreign exposures of at least $10 billion. The Company had total consolidated assets of $222.3 billion and less than $10 billion in foreign exposures at June 30, 2019 and, therefore, is subject to the SA.

Definition of capital

Basel III narrowed the definition of eligible capital and increased the capital requirements for specific exposures. CET1 is limited to common equity and related surplus (net of treasury stock), retained earnings, AOCI, and common equity minority interest, subject to limitations. Certain regulatory adjustments and exclusions are made to CET1, including removal of goodwill, other intangible assets, certain DTAs, and certain defined benefit pension fund net assets. Further, banks not subject to the AA risk-based capital rules were granted a one-time permanent election to exclude AOCI from the calculation of regulatory capital. The Company elected to exclude AOCI from the calculation of its CET1. The Company's CET1, Tier 1 and Total Capital ratios were 9.19%, 10.24%, and 11.93%, respectively, as of June 30, 2019.

Tier 1 capital includes CET1, qualified preferred equity instruments, qualifying minority interest not included in CET1, subject to limitations, and certain other regulatory deductions. Tier 2 capital includes qualifying portions of subordinated debt, trust preferred securities and minority interest not included in Tier 1 capital, ALLL up to a maximum of 1.25% of RWA, and a limited percentage of unrealized gains on equity securities. Total capital consists of Tier 1 capital and Tier 2 capital. Additionally, Basel III imposes capital deductions related to MSRs, certain DTAs, and significant investments in unconsolidated financial institutions in excess of 10% individually, or 15% in aggregate, of CET1 capital elements less certain adjustments and deductions thereto.

A transition period previously applied to certain capital elements and risk weighted assets, where phase-in percentages were applicable in the calculations of capital and RWA. One of the more significant transitions required by the Basel III Final Rule related to the risk weighting applied to MSRs, which impacted the CET1 ratio during the transition period when compared to the CET1 ratio calculated on a fully phased-in basis. Specifically, the fully phased-in risk weight of MSRs would have been 250%, while the risk weight to be applied during the transition period was 100%.

In the third quarter of 2017, the OCC, FRB, and FDIC issued two NPRs in an effort to simplify certain aspects of the capital rules, a Transitions NPR and a Simplifications NPR. The Transitions NPR proposed to extend certain transition provisions in the capital rules for banks with less than $250 billion in total consolidated assets. The Transitions NPR was finalized in November 2017, resulting in the MSR risk weight of 100% being extended. The rule became effective on January 1, 2018. The Simplifications NPR would simplify the capital treatment for certain acquisition, development, and construction loans, mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest, and would reinstate the 250% risk weighting for MSRs as outlined in the original Basel III capital rules. The Simplifications NPR was finalized on July 9, 2019, and will be effective April 1, 2020.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") was signed into law, which provides certain limited amendments to the Dodd-Frank Act as well as certain targeted modifications to other post-financial crisis regulatory requirements. The federal banking agencies have proposed several rules to implement the EGRRCPA (including the October 2018 NPR discussed below), but these proposed rules are subject to finalization, and additional rulemakings by the federal regulators are expected to be issued. As a result, we continue to evaluate the impact of the EGRRCPA, but anticipate that certain of its provisions could affect the Company's capital planning and strategy execution.

In September 2018, the OCC, FRB, and FDIC issued an NPR that would revise the definition of high volatility commercial real estate exposure ("HVCRE") to conform to the statutory definition of a high volatility commercial real estate acquisition, development, or construction loan, in accordance with the EGRRCPA. The revised definition would exclude any loans made prior to January 1, 2015, and certain other loans currently classified as HVCRE. The Company adopted this revised definition of HVCRE effective March 31, 2019.

In October 2018, the OCC, FRB, and FDIC issued a joint NPR to address the tailoring provided for in the EGRRCPA for U.S. banking organizations with more than $100 billion in total consolidated assets, based on four risk categories. The proposal reflects the primary changes effected by the EGRRCPA in the applicability of the Section 165 enhanced prudential standards to each category. As a Category IV banking organization, which includes banking organizations in the $100 to $250 billion in total assets range, the Company would be exempted from the Dodd-Frank Act company-run stress testing requirement, and would be subject to biennial supervisory stress-testing. Additionally, the Company would no longer be required to comply with the LCR though it would continue to be subject to modified liquidity risk management requirements, quarterly internal liquidity stress testing, and a liquidity buffer requirement. The applicability of these enhanced prudential standards and certain others effected by the EGRRCPA remains subject to regulatory uncertainty as the FRB has yet to propose rules and to issue guidance on various specific aspects of their applicability and associated reporting.

In February 2019, the FRB announced that certain less-complex BHCs with less than $250 billion in assets, including the Company, would not be subject to supervisory stress testing, company-run stress testing, or CCAR for 2019.

Also in October 2018, the OCC, FRB, and FDIC issued an NPR that introduced a new approach for calculating the exposure amount of derivative contracts for regulatory capital purposes, the standardized approach for counterparty credit risk ("SA-CCR"). If finalized, the Company could elect to utilize the SA-CCR in place of the current exposure methodology for determining counterparty credit risk exposures, as the SA-CCR would be optional for non-advanced approaches banking institutions.

Risk-weighted assets

RWA under the SA are generally based on supervisory risk weightings that vary by counterparty type and asset class. The revisions to supervisory risk weightings for Basel III enhanced risk sensitivity and included alternatives to the use of credit ratings when calculating the risk weight for certain assets. Specifically, Basel III:

- Includes a more risk-sensitive treatment for past due and nonaccrual loans, certain commercial loans, MSRs, and certain unfunded commitments,
- Prescribes a formulaic approach for calculating the risk weight of securitization exposures that is also more risk sensitive, and
- Permits greater recognition of financial collateral and a wider range of eligible guarantors as credit risk mitigants.

Revised minimum capital ratios

Basel III introduced new minimum capital requirements, including a new capital ratio, CET1. The CET1 ratio was designed to ensure banking organizations hold sufficient high-quality regulatory capital that is available to absorb losses on a going-concern basis.

In addition to the minimum required ratios, a CCB was created to encourage capital conservation by banking organizations and to enhance the resilience of the banking system. In accordance with the CCB, a banking organization is required to hold a 2.5% capital buffer above the minimum requirement for CET1, Tier 1, and Total capital. Limitations on capital distributions and discretionary bonus payments to executive officers take effect when the prescribed buffer is not maintained. The CCB requirement was phased-in between January 1, 2016 and January 1, 2019.

In April 2018, the FRB issued an NPR that included proposed modifications to minimum regulatory capital requirements as well as proposed changes to assumptions used in the stress testing process. The modifications would replace the 2.5% CCB with a Stress Capital Buffer ("SCB"). The SCB is the greater of (i) the difference between the actual CET1 ratio and the minimum forecasted CET1 ratio under a severely adverse scenario, based on modeling and projections performed by the Federal Reserve, plus four quarters of planned common stock dividends, or (ii) 2.5%. If finalized, the SCB would be calculated based on the 2019 CCAR process and be incorporated into capital requirements effective as of the fourth quarter of 2019.

The Company is also subject to a Tier 1 leverage ratio requirement, which measures Tier 1 capital against average total assets less certain deductions, as calculated in accordance with regulatory guidelines. The minimum leverage ratio threshold is 4% and is not subject to the CCB.

The Company's minimum and well capitalized capital ratio requirements under Basel III, including the phase-in schedule for the CCB, are shown below.

Capital Ratio	Phase-in period for CCB 2019	Well capitalized ratios [1,2]
CET1	4.5%	N/A
CCB	2.5	
CET1 + CCB	7.0%	
Tier 1 capital + CCB	8.5%	6.0%
Total capital + CCB	10.5	10.0
Leverage [1]	4.0	N/A

[1] The CCB does not apply to the leverage ratio or the well capitalized ratio requirements.
[2] "N/A" - Not applicable.

Basel III supplementary disclosures

Basel III includes enhanced public disclosure requirements (commonly referred to as “Pillar 3”) that were designed to improve market discipline and provide information on banking organizations’ regulatory capital and risk management practices. This report addresses these requirements by providing information on the Company’s capital structure, capital adequacy, risk exposures, RWA, and methodologies used to calculate RWA. The Pillar 3 disclosures are only applicable to the Company, although the Company and its primary subsidiary, the Bank, are required to comply with the Final Rule for calculating and reporting capital and RWA.

This report should be read in conjunction with the Company’s Form 10-K and 10-Q, which include important information on the Company’s accounting and risk management policies and practices. This report should also be read in conjunction with the quarterly Y-9C. A disclosure matrix is included in this report, with references to these documents where applicable. The disclosures in this report were prepared in accordance with the Company’s Pillar 3 reporting disclosure policy, which includes applicable internal controls and has been approved by the Company’s Board of Directors.

Capital adequacy

The Company takes a structured approach to assess the appropriate capital levels to be maintained. This includes current and forward-looking assessments of the Company's risk profile and capital levels, inclusive of strategic planning initiatives and long-term financial objectives. The Company maintains sufficient capital to support its risk profile, future business growth, and other strategic initiatives. Specifically, the Company's capital goals are to:

- Maintain sufficient capital to support the Company's risk profile under baseline and adverse economic scenarios;
- Hold sufficient capital of appropriate types to protect the Company's stakeholders, including but not limited to:
    - depositors,
    - shareholders,
    - bondholders,
    - other creditors, and
    - the FDIC;
- Provide an adequate return to its shareholders.

To support these objectives, the Company has established a robust regulatory capital monitoring structure that incorporates the expectations of the above-mentioned stakeholders, and measures its current and forward-looking capital levels against these established limits. In particular, the Company has established separate limits for the following projected scenarios:

- **Base Case Limits:** Projected capital ratios under base case (i.e., expected) forecasts are compared against their respective base case limits. These base case forecasts generally reflect the execution of the Company's strategic plans and objectives. Under these scenarios the Company incorporates planned capital actions (issuances and distributions) to ensure the appropriateness of its planned actions in light of its capital limits.
- **Adverse Case Limits:** At least semi-annually, the Company projects regulatory capital ratios under stressed scenarios and compares these ratios against their respective adverse case limits. In conducting these stress tests, the Company develops idiosyncratic macroeconomic scenarios that would likely result in adverse financial performance and an unfavorable impact to regulatory capital ratios, and prepares financial forecasts and calculates resulting capital ratios. Unlike the annual CCAR exercise conducted by the Federal Reserve, which requires the use of planned capital actions under stressful scenarios, the Company assumes alternate capital actions, per its Enterprise Capital Policy, that are aimed to conserve capital under these types of stressful scenarios.

In addition to its regulatory capital limits, the Company monitors its capital levels and risk profile relative to its peers, and incorporates regulatory guidance and expectations regarding capital adequacy and capital planning when considering the Company's capital adequacy.

All of the above processes are managed through a robust governance structure. In particular, the SCC, acting under the direction of the BRC, manages the Company's capital goals and strategy and measures and assesses capital adequacy. The SCC ensures that all related information is gathered in a timely fashion and communicated to capital planning teams. These capital planning teams oversee the capital forecasting process and assist in developing the Company's capital plan. Additionally, the teams monitor accounting and regulatory changes, assess the potential impact on the Company's capital adequacy, and if necessary, propose changes to ensure that the Company remains in compliance with capital requirements.

Current capital amounts and ratios

The following table includes the Company's capital ratios at June 30, 2019, as well as the regulatory minimum and well capitalized ratios required by the Basel III rules:

($ in millions)	**Amount**	**Ratio**	**Minimum required ratio** [1]	**Well capitalized ratio** [2]
CET1	$17,864	9.19%	4.5%	N/A
Tier 1 capital	19,912	10.24	6.0	6.0%
Total capital	23,184	11.93	8.0	10.0
Leverage	N/A	9.25	4.0	N/A

[1] Minimum required ratios do not include the CCB as the CCB is related to capital distributions and/or discretionary bonus payments only.
[2] "N/A" - Not applicable.

The Company's total shareholders' equity was $25.9 billion at June 30, 2019 and $24.8 billion at March 31, 2019. Included in total shareholders' equity at June 30, 2019 was $15 million surplus capital of insurance subsidiaries.

RWA exposure

The following table presents RWA by exposure type for on and off-balance sheet exposures at June 30, 2019:

($ in billions) **Exposure type**	**Exposure RWA**
On-balance sheet:	
(1) Exposures to sovereign entities [1]	$4.7
(2) Exposures to depository institutions, foreign banks, and credit unions	0.2
(3) Exposures to PSEs	1.9
(4) Corporate exposures, including loans	75.8
(5) Residential mortgage exposures	23.2
(6) Statutory multifamily mortgages and pre-sold construction loans	0.2
(7) HVCRE loans	1.3
(8) Past due loans [2]	0.5
(9) Other assets (including consumer loan exposures)	40.7
(10) Securitization exposures	0.8
(11) Equity exposures	0.5
Derivatives, off-balance sheet, and market risk:	
Off-balance sheet commitments, maturity less than 1 year	2.4
Off-balance sheet commitments, maturity greater than 1 year	32.0
Derivatives	2.7
Securitizations	0.5
Letters of credit and other	3.3
Market risk	3.7
Total RWA	$194.4

[1] The Company's sovereign exposure is predominantly to the U.S. government and its agencies.

[2] Amount does not include past due amounts related to residential mortgages and other loans that are government-guaranteed, which are included in other categories related to the type of loan or applicable counterparty herein.

See the Company's June 30, 2019 Y-9C, Schedule HC-R Part I and Part II, on the FFIEC website[1] for disclosures required by the Final Rule related to the following:

- Standardized market RWA as calculated under the Market Risk Rule. Additional details are also available in the FFIEC 102 report on the FFIEC's website;
- CET1, Tier 1 capital, and Total risk-based capital components and related calculations; and
- Total standardized RWA by exposure type, including the related on- and off-balance sheet exposure.

Additionally, see the June 30, 2019 Call Report on the FFIEC's website[2] for the CET1, Tier 1 capital, and Total risk-based capital ratios of the Company's only depository institution subsidiary, SunTrust Bank.

Capital conservation buffer

The CCB became effective beginning January 1, 2016 and the disclosures required by the Final Rule are included in the Company's Y-9C, Schedule HC-R Part I. The Company's capital ratios at June 30, 2019 significantly exceed regulatory minimum requirements, inclusive of the CCB.

[1] The Y-9C can be accessed at https://www.ffiec.gov/nicpubweb/nicweb/SearchForm.aspx
[2] The Call Report can be accessed at https://cdr.ffiec.gov/public/ManageFacsimiles.aspx

Credit risk

Overview

Enterprise Risk, an independent risk function, establishes and oversees the Company's credit risk management governance framework and policies, independently measures, analyzes, and reports on portfolio and risk trends, and actively participates in the formulation of credit strategies. Credit risk officers are direct participants in the origination, underwriting, and ongoing management of credit and promote an appropriate balance between risk management and business objectives by adhering to established policies, procedures, and standards. Credit Risk Review, one of the Company's independent assurance functions, regularly assesses and reports on business unit and enterprise asset quality, and the integrity of the Company's credit processes. Additionally, total borrower exposure limits and concentration risk are established and monitored. The Company grants credit on the basis of borrower/counterparty capacity to repay rather than placing primary reliance on credit risk mitigation.

Consistent with established risk management objectives, the Company utilizes various risk mitigation techniques, including collecting collateral and security interests, obtaining guarantees, and, to a limited extent, through the purchase of credit loss protection via third party insurance and/or use of credit derivatives such as CDS.

Borrower/counterparty (obligor) risk and facility risk is evaluated using the Company's own risk rating methodology, which is utilized across all lines of businesses. The Company uses various risk models to estimate both expected and unexpected loss, which incorporates both internal and external default and loss experience. The Company collects and uses internal data to ensure the validity, reliability, and accuracy of risk models used in default, severity, and loss estimation. To the extent credit risk mitigation techniques and collateral are employed, this is reflected in the obligor and facility risk ratings. Examples of collateral reflected in the Company's facility ratings include, but are not limited to, cash, working capital, depreciable assets, and real estate. However, in accordance with the SA, only certain collateral obtained by the Company as credit risk mitigants can be considered in calculating RWA. See additional discussion of eligible credit risk mitigants in the "Credit mitigation" section of this report.

Additional disclosures related to credit risk policies are included in the Company's Form 10-Q, including policies for past due and delinquent exposures, nonaccrual loans, impaired loans, restructured loans, allowance for credit losses and related estimation methodologies, and overall credit risk management.

Credit exposure characteristics

Details of the Company's credit exposures, including LHFI, unfunded lending commitments, debt securities, OTC derivatives, and impaired loans, together with a discussion of the allowance for credit losses, are included in the Company's Form 10-Q and Form 10-K. The following tables provide additional details on the Company's credit risk exposures to supplement the disclosures included in the Form 10-Q.

<u>General credit exposure characteristics</u>

The following tables provide the Company's credit exposures including details related to contractual maturity, geography (based on the U.S. Census Bureau's classifications of U.S. regions), and counterparty at and for the quarter ended June 30, 2019.

($ in millions)	Exposure amount		Contractual maturity at June 30, 2019 [1]		
	June 30, 2019	2Q19 Average	< 1 year	1-5 years	> 5 years
Due from banks and repo-style transactions [2]	$3,489	$4,051	$3,489	$—	$—
Securities AFS [3]	31,918	31,865	2,263	8,141	21,514
LHFI [4]	156,589	156,224	16,087	63,079	77,423
Unfunded commitments	102,889	100,026	28,471	61,636	12,782
OTC derivatives [5]	3,513	3,317	806	1,636	1,071

[1] Credit exposures presented by remaining contractual maturity, with the exception of MBS included in Securities AFS, which are based on estimated average life.

[2] Excludes amounts due from other financial institutions that have been reclassified to borrowings for reporting purposes in the Y-9C.

[3] At amortized cost.

[4] Excludes deposit and trust overdrafts that were reclassified to LHFI for balance sheet reporting purposes in the Y-9C.

[5] Includes current exposure and PFE, as calculated in accordance with the Final Rule.

($ in millions)	Geography [1]					
	South	Northeast	West	Midwest	Foreign	Total
Due from banks and repo-style transactions	$2,223	$865	$218	$49	$134	$3,489
LHFI[2]	111,525	16,095	15,350	11,832	1,787	156,589
Unfunded commitments	67,563	13,349	10,847	9,293	1,837	102,889

[1] Securities AFS are not included in the table as a result of limited geographical credit risk due to 95% of the portfolio, excluding equities, being U.S. Treasury or agency-related securities. The portfolio includes an immaterial amount of foreign sovereign securities. Additionally, the Company believes a geographical presentation of OTC derivatives in the categories above is not meaningful. The Company's OTC derivative contracts with foreign counterparties were immaterial at June 30, 2019.

[2] See the following geographic concentrations tables further depicting dispersion of LHFI.

($ in millions)	Counterparty [1]					
	Sovereign [2]	GSE	PSE	Financial Institutions	Corporate and Other	Total
Due from banks and repo-style transactions	$2,149	$—	$—	$1,192	$148	$3,489
Securities AFS [3]	16,171	14,144	582	7	1,014	31,918
OTC derivatives	—	3	—	2,850	660	3,513

[1] LHFI and unfunded commitments are presented by industry in the industry concentration section of this report.

[2] Primarily includes exposure to the U.S. government and its agencies.

[3] At amortized cost.

The vast majority of the Company's Securities AFS includes U.S. Treasury and agency-related securities. The most important feature management relies on when assessing credit risk for U.S. Treasury and agency-related securities is the guarantee of the federal government or its agencies. Details regarding the Securities AFS portfolio can be found in the Company's Form 10-Q in Note 5, "Investment Securities."

The Company reports its LHFI in two segments: commercial and consumer. LHFI are assigned to these segments based upon the type of borrower, purpose, collateral, and/or the Company's underlying credit risk management processes. Additionally, within each segment, the Company disaggregates loans based upon common risk characteristics.

Geographic concentrations

The following tables provide the geographic concentration for LHFI and unfunded lending commitments at June 30, 2019. Within each loan segment presented, the total amounts are disclosed along with the portion of those amounts that relate to certain credit quality metrics.

	Commercial							
			Nonaccrual			Individually Evaluated for Impairment		
($ in millions)	LHFI	Past Due 90+ and Accruing	Current or 30-89 Days	Past Due 90+ [1]	Total	Amount	Related ALLL	Unfunded Commitments
South region:								
Florida	$13,302	$4	$36	$14	$50	$24	$8	$8,485
Georgia	10,872	2	14	2	16	8	6	7,264
Virginia	6,420	2	7	2	9	—	—	5,296
Maryland	4,687	1	2	2	4	—	—	2,838
North Carolina	4,932	1	7	3	10	—	—	2,916
Texas	5,119	—	36	—	36	46	4	7,525
Tennessee	3,847	1	1	—	1	—	—	3,476
South Carolina	1,642	—	7	3	10	7	1	492
District of Columbia	1,985	—	—	—	—	—	—	1,147
Other Southern states	2,814	—	6	—	6	99	2	4,087
Total South region	55,620	11	116	26	142	184	21	43,526
Northeast region:								
New York	5,181	—	—	14	14	14	1	5,166
Pennsylvania	1,864	—	—	—	—	—	—	1,997
New Jersey	1,537	1	—	—	—	—	—	1,646
Other Northeastern states	2,963	—	—	—	—	—	—	3,871
Total Northeast region	11,545	1	—	14	14	14	1	12,680
West region:								
California	5,597	2	39	56	95	101	26	6,081
Other Western states	3,007	—	3	5	8	3	1	3,309
Total West region	8,604	2	42	61	103	104	27	9,390
Midwest region:								
Illinois	1,964	—	—	—	—	—	—	2,283
Ohio	972	—	—	—	—	—	—	1,206
Missouri	1,022	—	—	—	—	—	—	1,381
Other Midwestern states	2,553	—	1	—	1	—	—	3,588
Total Midwest region	6,511	—	1	—	1	—	—	8,458
Foreign loans	1,711	—	—	—	—	—	—	1,835
Total	$83,991	$14	$159	$101	$260	$302	$49	$75,889

[1] Includes impaired loans that were not individually evaluated for impairment.

($ in millions)	Consumer							
			Nonaccrual			Individually Evaluated for Impairment [1]		
	LHFI	Past Due 90+ and Accruing	Current or 30-89 Days	Past Due 90+ [2]	Total	Amount	Related ALLL	Unfunded Commitments
South region:								
Florida	$13,335	$103	$25	$67	$92	$615	$44	$7,774
Georgia	8,525	102	10	32	42	287	18	3,771
Virginia	7,644	66	9	20	29	237	15	4,024
Maryland	6,325	61	9	21	30	174	11	2,102
North Carolina	5,538	62	7	21	28	147	9	2,134
Texas	5,184	95	1	4	5	40	1	563
Tennessee	2,934	29	2	8	10	71	4	2,194
South Carolina	2,457	24	2	6	8	81	5	774
District of Columbia	1,142	7	1	2	3	14	1	291
Other Southern states	2,821	112	2	3	5	30	—	410
Total South region	55,905	661	68	184	252	1,696	108	24,037
Northeast region:								
New York	1,351	90	2	5	7	24	1	144
Pennsylvania	1,388	85	—	—	—	11	—	181
New Jersey	770	32	1	1	2	10	—	105
Other Northeastern states	1,041	45	—	1	1	9	—	239
Total Northeast region	4,550	252	3	7	10	54	1	669
West region:								
California	3,681	94	3	6	9	98	6	579
Other Western states	3,065	111	—	2	2	32	1	878
Total West region	6,746	205	3	8	11	130	7	1,457
Midwest region:								
Illinois	1,176	47	—	1	1	8	—	151
Ohio	815	79	—	—	—	4	—	74
Missouri	512	42	—	—	—	2	—	127
Other Midwestern states	2,818	162	1	1	2	14	—	483
Total Midwest region	5,321	330	1	2	3	28	—	835
Foreign loans	76	14	—	—	—	—	—	2
Total	$72,598	$1,462	$75	$201	$276	$1,908	$116	$27,000
Guaranteed	$7,641	$1,431	$—	$—	$—	$—	$—	$—

[1] Primarily consists of loans modified as a TDR.

[2] Includes impaired loans that were not individually evaluated for impairment.

Industry concentration

The following table provides industry concentration information for the Company's LHFI and related unfunded lending commitments at June 30, 2019:

($ in millions)	LHFI	Past Due 90+ and Accruing [1]	Nonaccrual			Unfunded Commitments
			Current or 30-89 Days Past Due	Past Due 90+	Total	
Real estate	$13,623	$—	$1	$—	$1	$7,670
Consumer products and services	10,441	3	18	6	24	7,851
Health care & pharmaceuticals	8,846	1	12	1	13	5,759
Automotive	8,570	1	10	1	11	3,474
Diversified financials and insurance	8,533	—	1	3	4	8,352
Diversified commercial services and supplies	5,012	2	6	19	25	4,949
Government	3,259	—	4	—	4	660
Capital goods	3,675	—	7	2	9	4,670
Retail	3,656	1	3	3	6	5,050
Media & telecommunication services	3,181	—	36	—	36	3,975
Technology (hardware & software)	2,229	—	2	—	2	3,663
Materials	2,304	—	9	2	11	3,090
Energy	2,565	—	31	2	33	6,062
Not-for-profits/religious organizations	2,062	2	4	4	8	895
Transportation	2,138	1	9	2	11	1,489
Utilities	2,223	—	—	56	56	3,502
Other	1,674	3	6	—	6	4,778
Total commercial	83,991	14	159	101	260	75,889
Consumer	72,598	1,462	75	201	276	27,000
Total	$156,589	$1,476	$234	$302	$536	$102,889

[1] Of these, 98% were government guaranteed.

Maturity exposure

The following table provides the remaining maturity for LHFI and unfunded lending commitments at June 30, 2019, based on the contractual maturity of the related exposure. Details regarding the remaining maturity of the Securities AFS portfolio are located in the Company's Form 10-Q and details regarding OTC credit derivatives are located in the Company's Y-9C in schedule HC-L.

	Remaining maturity			
($ in millions)	**1 year or less**	**1-5 years**	**After 5 years**	**Total**
Commercial	$13,679	$50,539	$19,770	$83,988
Consumer	2,408	12,540	57,653	72,601
Total LHFI	16,087	63,079	77,423	156,589
Commercial	14,596	60,131	1,162	75,889
Consumer	13,875	1,505	11,620	27,000
Total unfunded commitments	28,471	61,636	12,782	102,889
Total funded and unfunded	$44,558	$124,715	$90,205	$259,478

Counterparty credit risk arising from OTC derivative contracts, repo-style transactions, and eligible margin loans

Counterparty credit risk is the risk that a counterparty to a transaction with the Company fails to perform. This risk is a byproduct of transactions undertaken by the Company to facilitate a client's financing and hedging needs and can also result from the Company's normal balance sheet management, risk management, and funding activities. Counterparty risk is a category of credit risk often associated with capital markets activities, including OTC derivatives, securities financing, and margin lending.

As a dealer and market maker, the Company uses OTC derivatives primarily to support client hedging and risk management activities, as well as in an end-user capacity to manage its own balance sheet risk exposures. As a financial entity, certain interest rate swaps and CDS transactions entered into by the Company or its subsidiaries are subject to mandatory clearing. Details of the Company's use of derivatives are included in the Company's Form 10-K and Form 10-Q.

The securities financing market encompasses both repurchase and reverse repurchase agreements, as well as securities lending/borrowing transactions. These transactions are structured such that borrowers post collateral in exchange for the ability to borrow cash or securities. Securities financing transactions enable cost-effective borrowing for clients and the Company and facilitate a variety of market making activities. All securities financing transactions are subject to the same risk management procedures, and applicable RWA calculations consider eligible collateral and the counterparty to the underlying transaction.

The Bank offers margin loans to select wealth management clients. The Company has an immaterial amount of these loans and, as a result, these exposures are included with other consumer loans in the RWA calculation without considering the potential benefit of posted collateral.

Counterparty credit risk management is integrated into the Company's credit risk management function. For transactions that generate meaningful counterparty credit risk, credit officers first perform a credit underwriting of the counterparty and assign an internal risk rating, before finally determining an aggregate credit exposure limit. Furthermore, if multiple underlying products and risk exposures are involved, then separate limits are assigned for each product with the counterparty. The counterparty exposure arising from OTC derivatives, securities lending, or margin lending transactions is aggregated with all other borrower exposures for risk management purposes.

In addition to counterparty selection and monitoring, documentation and collateral management are central to the Company's counterparty risk management efforts. Transactions not subject to central clearing are typically executed under master netting agreements. These documents provide a variety of legal protections, most notably the ability to close out all trades under that agreement on a net basis in the event of a counterparty default. The Company's legal department chairs a committee that reviews master netting agreements to confirm the enforceability of netting and collateral arrangements and generally obtains third party legal opinions regarding enforceability.

The regulatory requirement to centrally clear eligible derivative transactions with eligible CCPs effectively reduces the Company's counterparty credit exposure to dealers; it will however increase its exposure to CCPs. The Company manages its exposure to CCPs using the same risk management practices as used for other counterparties and in accordance with supervisory guidance.

OTC derivatives

The values of OTC derivatives[1] are based on the movement in one or more underlying variables (e.g., interest rates, credit spreads, foreign exchange rates, etc.). For internal risk management purposes, the Company establishes credit limits based on a measure of PFE, a statistical measure (at a high confidence interval) of the amount that a counterparty could owe the Company at some future point in time, taking into account collateral requirements and legally enforceable netting arrangements. The PFE, current credit exposure or mark-to-market, and collateral values, if applicable, are refreshed daily and used to calculate total counterparty credit exposure, which is compared against pre-established limits. The Company has an established limit exception management process in place which identifies, escalates, remediates, and documents any risk exposures that may exceed limits. As a bank subject to the SA, RWA for OTC derivatives is determined using the methodology prescribed in the Final Rule for calculating PFE, and as such, the Company does not use its internal model generated PFE for that purpose.

The Company typically establishes zero threshold margin arrangements with dealers, governed under ISDA/CSA documents, such that when the fair value of a derivative changes, the out-of-the-money counterparty posts collateral to the in-the-money counterparty; collateral is generally exchanged on a daily basis. OTC derivative transactions with non-dealer clients are generally not subject to the same margin arrangements; however, they are still subject to master netting arrangements and the Company uses other available risk management techniques when necessary.

For OTC derivative transactions subject to a CSA, the Company typically only accepts high quality, liquid collateral instruments such as cash, U.S. Treasury, or agency-issued instruments, subject to applicable haircuts, as necessary. This collateral generally qualifies as financial collateral pursuant to the Final Rule. Cash represents the majority of the Company's collateral positions and is typically held in the Company's account or at another financial institution. Securities collateral is held at the Company's custodian bank in the Company's name and is generally controlled by the Company. In limited circumstances collateral may be posted to an independent custodian bank for the benefit of the Company; in these circumstances, the Company does not have direct control over the collateral.

[1] The Company enters into both cleared and non-cleared trades. Collateral in the context of non-cleared trades is discussed in this section. For cleared derivatives, the payment of variation margin is determined to be settlement payment.

All OTC derivative transactions subject to margining requirements are monitored daily by an independent control function to ensure that collateral calls are issued and met in a timely manner. This function also ensures that any excess collateral posted by the Company to a counterparty is actively managed and withdrawn when no longer required. All collateral is valued daily. The collateral control function follows established procedures to resolve any disputes on the amount of collateral required, and an escalation procedure is in place to ensure senior management is informed of any material disputes.

In a limited number of situations, the Company's CSAs contain ratings based thresholds, such that the Company would need to post additional collateral to the degree that it suffered a credit downgrade. Additional information related to the Company's CSAs and various threshold levels at which additional collateral would be required to be posted by the Company are discussed in the Company's Form 10-K and 10-Q.

Derivative instruments are priced using observable market inputs at a mid-market valuation point and take into consideration appropriate valuation adjustments for collateral, market liquidity, and counterparty credit risk. For purposes of determining fair value adjustments to its derivative positions, the Company takes into consideration the credit profile and likelihood of default by counterparties and itself, as well as, its net exposure, which considers legally enforceable master netting agreements and financial collateral along with remaining maturities. The expected loss of each counterparty, the CVA, is estimated using market-based views of counterparty default probabilities observed in the single-name CDS market, when available and of sufficient liquidity. When single-name CDS market data is not available or not of sufficient liquidity, the probability of default is estimated using a combination of the Company's internal risk rating system and sector/rating based CDS data.

For purposes of estimating the Company's own credit risk on derivative liability positions, the DVA, the Company uses probabilities of default from observable, sector/rating based CDS data. Information on the Company's fair value measurements can be found in the Company's Form 10-Q in Note 17, "Fair Value Election and Measurement."

<u>Securities financing</u>

Securities financing transactions are typically secured by high-quality, liquid collateral. The Company establishes limits on counterparties using the Basel Collateral Haircut methodology, measuring in this case the amount that the Company could lose if it were forced to close out the transaction ahead of scheduled maturity in a stressed situation. The Company may supplement its credit limits with notional limits based on the counterparty and/or the size of the financing arrangement.

Securities financing transactions provide for the regular movement of collateral so that the lender maintains an appropriate margin. The Company monitors its securities financing positions on a daily basis and calls for additional collateral as needed. The collateral received is typically held in an account with the Company's securities custodian.

The following tables provide additional information about the Company's OTC derivatives and securities financing exposures related to reverse repurchase agreements and securities borrowing at June 30, 2019. Additional quantitative information related to OTC derivatives and securities financing exposures, including securities sold under agreements to repurchase, which are fully cash collateralized, can be found in the Company's Form 10-Q and Form 10-K. Margin loans are not included in the tables below due to their immaterial balance compared to the Company's gross credit exposures.

OTC derivative and securities financing exposure[1]

($ in millions)	Gross positive exposure [2]	Netting	Collateral [3]	Net exposure
Total OTC derivatives	$3,214	$1,733	$322	$1,159
Total securities financing	612	—	602	10

[1] Exchange traded instruments and cleared transactions are excluded.

[2] Gross positive exposure is one of several metrics the Company uses to measure counterparty exposure. This metric presents a conservative view of exposure as it ignores both the benefits of netting and collateral.

[3] Excludes excess collateral received from counterparties.

Distribution of OTC derivative exposures

($ in millions)	Gross positive exposure
Equities	$1,353
Interest Rate Swaps	1,499
Foreign Exchange	98
Credit Default Swaps (includes TRS)	37
Swap risk participations	146
Commodities & Other	81
Total OTC Derivatives	$3,214

Total collateral positions held by the Company[1]

		Securities Financing	
($ in millions)	OTC Derivatives	Reverse repurchase agreements	Securities borrowing
Cash	$939	$57	$—
Treasuries	10	—	—
Agencies [2]	8	69	—
Corporates	—	—	482
Total collateral positions	$957	$126	$482

[1] Includes excess collateral posted to the Company (collateral in excess of the mark to market on the trade or the amount loaned under a securities financing transaction). For certain transactions, particularly related to securities financing, excess collateral is contractually required.

[2] Includes SBA and agency MBS.

The following table provides information about the notional amount of the Company's purchased and sold OTC credit derivatives at June 30, 2019.

Purchased and sold OTC credit derivatives [1, 2]

($ in millions)	Portfolio hedging - notional	Trading account - notional
Purchased		
CDS	$545	$—
Total Return Swaps	—	2,392
Other [3]	—	7
Sold		
Total Return Swaps	—	2,392
Other [3]	—	41

[1] The Company uses credit derivatives for hedging and risk management activity. Portfolio hedging is comprised predominately of purchased single name CDS. Additionally, the Company has a portfolio of TRS (typically on commercial leveraged loans) which it runs on a matched book basis. The terms of the TRS contracts require third party clients to post initial margin, in addition to variation margin as the fair values of the reference assets change.

[2] Excludes centrally cleared index CDS.

[3] Notional amounts for purchased and written credit risk participation agreements, respectively, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.

Credit risk mitigation

The Final Rule allows eligible financial collateral, guarantees, and credit derivatives to be recognized in the calculation of RWA. The Company's use of credit risk mitigants in the calculation of RWA is presented below. When financial collateral is obtained that qualifies as eligible collateral under the Final Rule, the eligible collateral can be substituted for the collateralized portion of the credit exposure in the RWA calculation. As illustrated below, the eligible financial collateral consists of U.S. Treasury or agency securities as well as cash. Similarly, when an eligible guarantee is received, the risk weight applicable to the eligible guarantor would apply to the exposure amount covered by the guarantee.

Eligible financial collateral

($ in millions) **Exposure type**	**Collateral type**	**Exposure amount secured by eligible collateral**	**Secured exposure amount following any applicable collateral haircuts [1]**
Repo-style transactions	Cash on deposit at the Bank, U.S. Treasury or agency securities	$1,244	$1,235
LHFI	Cash on deposit at the Bank	124	124
OTC derivatives [2]	Cash on deposit at the Bank	287	287

[1] Generally, the risk weight assigned to the collateralized portion of an exposure cannot be less than 20%. Collateral haircuts are required on collateral securing eligible margin loans, repo-style transactions, and derivatives when using the Basel Collateral Haircut methodology, and are calculated in accordance with the Final Rule. Exposures collateralized by cash on hand can be assigned a 0% risk weight and sovereign exposure collateral can be assigned a risk weight less than 20% after applying an applicable haircut in accordance with the Final Rule.

[2] Excludes excess collateral that the Company holds.

Eligible guarantees

($ in millions) Exposure type	Guarantor	Exposure amount	RWA amount
AFS	U.S. government and its agencies, sovereign governments	$30,391	$2,842
LHFS	U.S. government and its agencies	101	21
LHFI	U.S. government and its agencies	8,146	1,720
Other assets	U.S. government and its agencies	1,412	166
Unfunded commitments	U.S. government and its agencies	9	2

Securitizations

Overview

The Basel III framework for securitizations addresses the capital treatment for exposures that involve the tranching of credit risk and categorizes securitizations as either traditional or synthetic.

The Final Rule describes a traditional securitization as a transaction with the following attributes:

- All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
- The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
- Performance of the securitization exposures is solely dependent on the performance of the underlying exposures; and
- All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities, or equity securities).

A synthetic securitization shares the same attributes as a traditional securitization, except that all or a portion of the credit risk of one or more underlying assets is retained or transferred to one or more third parties through the use of one or more credit derivatives or guarantees.

Any securitization where one or more of the underlying exposures are a securitization exposure is considered to be a resecuritization. Examples of resecuritizations include ABS, CDOs, and CLOs, if any of the underlying exposures in these structures are themselves securitization exposures.

The Company's securitization exposures include investments in agency guaranteed mortgage-backed securitizations and traditional non-government or non-agency guaranteed asset-backed securitizations, loans, lines of credit, and liquidity facilities. The Company's primary securitization-related activity involves extending loans to client sponsored securitizations. The Company does not have exposures to securitization guarantors, other than government and government agency guarantors, or material exposures to synthetic securitizations. The following disclosures relate to the Company as an investor and lender.

Securitization process

The Company's current exposure to securitizations primarily includes loans to SPEs (not sponsored by the Company) that are designed to meet client needs for long-term financing of assets or working capital. These securitization arrangements assist the Company's clients in funding their financial assets. Exposure amounts at June 30, 2019 are provided below in the "risk-based capital approach" section.

The Company sells and at times may securitize loans and other financial assets. When the Company securitizes assets, it may hold a portion of the securities issued as either Securities AFS or Other assets, including senior interests, subordinated and other residual interests, interest-only strips, and principal-only strips, all of which are considered retained interests in the transferred assets. These interests are classified as either Securities AFS or Other assets on the Company's balance sheets and are initially recognized and measured at fair value using either third party market prices for identical or similar assets, or discounted cash flow analyses that employ management's best estimates of key assumptions, including credit losses, loan repayment speeds and discount rates commensurate with the risks involved. At June 30, 2019, the Company held an immaterial amount of retained interests related to assets securitized in traditional securitizations.

The Company also originates and sells certain commercial mortgage loans to Fannie Mae and Freddie Mac, originates FHA insured loans, and issues and sells Ginnie Mae commercial MBS backed by FHA insured loans. The Company transfers commercial loans to securitization entities sponsored by these agencies. The loans are exchanged for cash or securities that are readily redeemable for cash, with servicing rights retained. The Company does not retain any debt or equity interests in the securitization entities. The Company has made certain representations and warranties with respect to the transfer of these loans and has entered into a loss share guarantee related to certain loans transferred to Fannie Mae.

At June 30, 2019, the Company held $113 million in insured loans that it intended to securitize with Ginnie Mae. The Company periodically evaluates securitizations as a source of alternate financing; however, it does not expect securitization to comprise a significant amount of total funding.

Information on the Company's accounting policies related to securitizations can be found in the Company's Form 10-K in Note 1, "Significant Accounting Policies," and Form 10-Q in Note 11, "Certain Transfers of Financial Assets and Variable Interest Entities," Note 15, "Guarantees," and Note 17, "Fair Value Election and Measurement."

Due diligence

The Company analyzes the credit profile of each securitization exposure prior to entering into that position, and documents such due diligence within the timeframe required under the Final Rule. The due diligence procedures are designed to provide the Company with a comprehensive understanding of the features that would materially affect the performance of its exposures.

The Company's due diligence procedures include analyzing and monitoring:

- Information regarding the performance of the underlying credit exposures and relevant market data;
- Structural and other enhancement features that may affect the credit quality of a securitization; and
- Credit profile of the seller/servicer of the assets securitized.

The level of detail included in the due diligence procedures is commensurate with the complexity of each securitization position held. In addition to pre-trade due diligence, the due diligence procedures are also performed on a periodic basis for each securitization position.

Risks

Securitization transactions involve a number of risks including credit risk and seller/servicer risk. Credit risk arises where the underlying assets fail to perform (i.e., payment rates, dilution, write-offs/losses), such that the credit enhancement is insufficient to protect the Company's investment. Seller/servicer risk represents the reliance on the seller and/or servicer of the assets to perform its duties under the securitization agreement and make certain representations and warranties as to the underlying collateral. The risks in the securitization loan portfolio are monitored monthly by comparing performance of assets to the structural requirements. The Company manages these risks (both pre and post commencement of a position) as part of its Enterprise Risk Management function, which is described in the Company's Form 10-Q and Form 10-K.

Risk-based capital approach

The Basel III SA requires the application of the SSFA or, if not subject to the Market Risk Rule, the gross-up approach for calculating RWA for securitization exposures. The Company is subject to the Market Risk Rule and, therefore, applies the SSFA to its securitization exposures. A risk weight of 1,250% must be applied to a securitization exposure where the Company does not apply the SSFA.

The SSFA requires the following inputs to calculate regulatory capital:

- *Attachment Point*: the point at which collateral losses from underlying assets backing a securitization tranche will first be applied to the tranche in the form of principal write-downs;
- *Detachment Point*: the point at which the tranche will be completely written-down as a result of losses from the collateral backing the tranche;
- *Weighted Average Capital*: the weighted average capital charge for the assets in the securitization;
- *Seriously Delinquent*: the percentage of underlying collateral that is seriously delinquent (e.g., 90+ days past due, in foreclosure, in bankruptcy); and
- *Calibration Parameter*: a parameter that increases the riskiness of a tranche for re-securitizations.

The risk-based capital requirement under the SSFA is the exposure amount (including any accrued interest receivable on the exposure) multiplied by the higher of either the calculated risk weight, determined by the inputs listed above, or a 20 percent risk weight.

<u>Exposure by type</u>

The following table presents traditional securitization exposures and their applicable risk weighting at June 30, 2019. The amount of exposures that were past due and impaired at June 30, 2019 were immaterial, and no losses were incurred on the exposures during the three months ended June 30, 2019. During the three months ended June 30, 2019, the exposure amount related to LHFI decreased $43 million and unfunded commitments increased $211 million, while other securitization exposures did not change materially. The change during the quarter in LHFI and unfunded commitments was driven primarily by normal course borrowing activity in the portfolio.

Pursuant to the SSFA, the portfolio of LHFI and unfunded commitments related to LHFI shown in the table below receive a lower risk weighting, compared to loans and unfunded commitments that are not securitization exposures, as the risk is lowered as a result of low delinquency rates, overcollateralization, and subordination of cash flows in a bankruptcy remote structure.

($ in millions) **Exposure Type**	**Exposure Amount**	**RWA**	**RWA %**	**RWA Method**
LHFI[1]	$3,152	$641	20%	SSFA
Unfunded commitments related to LHFI[1]	2,548	533	21	SSFA
Securities AFS	1,046	202	19	SSFA
Total	$6,746	$1,376		

[1] Additional information can be found in the table below.

Exposure by collateral type

The following table presents LHFI and unfunded commitments exposures subject to securitization capital treatment by underlying exposure at June 30, 2019. The amounts below are considered traditional securitization exposures.

	Exposure Amount			
($ in millions) **Exposure Type**	**LHFI**	**Unfunded Commitments**	**Total**	**RWA**
Trade receivables	$776	$674	$1,450	$291
Commercial and industrial	924	428	1,352	270
Consumer Loans	529	296	825	171
Other	923	1,150	2,073	442
Total	$3,152	$2,548	$5,700	$1,174

Equities not subject to the Market Risk Rule

The Company has total equity exposures not subject to the Market Risk Rule of approximately $3.1 billion at June 30, 2019. These exposures are held primarily for strategic purposes and include separate account BOLI, money market funds, and other equity investments (including Federal Reserve and FHLB stock) classified within Other assets, the majority of which are related to the Company's tax-advantaged affordable housing and other community development investments.

Equity securities with a readily determinable fair value are reflected within Other assets on the Company's Form 10-Q and measured at fair value with gains and losses recognized in the income statement. Beginning January 1, 2018, equity securities without readily determinable fair values are recorded using a measurement alternative, which is cost minus impairment, if any, plus or minus changes resulting from observable price changes. The exception to this approach is for investments accounted for using the equity method and investments in qualified affordable housing entities, the latter of which are accounted for using the proportional amortization method when certain conditions are met. Details of the Company's accounting policy for equity investments and the valuation of financial instruments are provided in Note 1, "Significant Accounting Policies," in the Company's Form 10-K and Form 10-Q.

There was an immaterial amount of realized gains arising from the sale or liquidation of equity securities during the quarter ended June 30, 2019. There was no unrealized gain on equity securities without a readily determinable fair value recognized in the income statement for the quarter ended June 30, 2019.

For exposures to investment funds, the Company uses a combination of the Full Look-Through Approach and the Simple Modified Look-Through Approach to calculate RWA. Under these approaches, RWA is calculated on the underlying exposures held by the fund as if they were held directly by the Company and, then, multiplied by the Company's proportional ownership share of the fund. For all other exposures, the Company uses the SRWA. Under the SRWA, the Company applies the regulatory prescribed risk weights to the carrying value of each equity exposure.

Equity RWA

The following table presents the exposure and RWA for equities not subject to the Market Risk Rule by risk weight at June 30, 2019.

($ in millions) **Risk-weight category**	**Exposure**	**RWA**
0% [1]	$448	$—
20% [2]	487	97
100% [3]	1,964	1,964
Look-through	204	43
Total	$3,103	$2,104

[1] Includes $403 million of Federal Reserve Bank of Atlanta stock.
[2] Includes $429 million of Federal Home Loan Bank of Atlanta stock.
[3] Primarily includes equity exposures to community development investments.

Carrying value and fair value

The following table presents the carrying value for equities not subject to the Market Risk Rule at June 30, 2019.

($ in millions)	**Carrying Value**
Publicly traded	$73
Non-publicly traded	3,030
Total	$3,103

Interest rate risk for non-trading activities

The Company provides information on its interest rate risk related to non-trading activities in its Form 10-K in the "Market Risk from Non-Trading Activities" section.