

SunTrust Banks, Inc.
Dodd-Frank Act 2015 Annual Stress Test
Results Disclosure

March 6, 2015

Overview

SunTrust Banks, Inc. (“SunTrust” or the “Company”) regularly evaluates financial and capital forecasts under various economic scenarios as a part of its enterprise-wide stress testing and capital planning processes. These tests include assessing the hypothetical performance of the Company and / or specific portfolios under potential stressed economic conditions.

As a component of its overall stress testing program, SunTrust and certain other banks are required to conduct semi-annual stress tests pursuant to the *Supervisory and Company-Run Stress Test Requirements for Covered Companies* Final rule. SunTrust completed its Dodd-Frank Act Stress Test (“DFAST”) process earlier this year in conjunction with the Federal Reserve Board’s (“FRB”) Comprehensive Capital Analysis and Review (“CCAR”) process. SunTrust submitted these results to the FRB, as required, prior to January 5, 2015. The Company and the FRB individually publish summary results of certain components of this stress test. This document outlines the approach SunTrust utilized in this annual DFAST process, as well as certain summary results.

For the CCAR 2015 stress test, SunTrust developed two hypothetical economic scenarios – SunTrust Baseline and SunTrust Adverse, and the FRB developed three hypothetical economic scenarios – Supervisory Baseline, Supervisory Adverse, and Supervisory Severely Adverse. The Company then estimated the impact to its financial performance and capital position under the economic conditions prescribed in the five scenarios. The forecast time horizon of the stress tests covered the nine-quarter period beginning in the fourth quarter of 2014 (October 1, 2014) and continuing through the end of the fourth quarter of 2016 (December 31, 2016). In accordance with regulatory guidance, this document presents a summary of results of SunTrust’s company-run annual stress test conducted under the Supervisory Severely Adverse scenario.

The results of SunTrust’s annual Dodd-Frank Act Stress Test indicate that the Company will have the financial resources at its disposal to successfully navigate a severe and protracted economic downturn and will maintain capital levels that exceed regulatory minimums throughout the course of the hypothetical scenario.

SunTrust’s disclosures of projected results, risks, and assumptions are made pursuant to the requirements of the Federal Reserve’s DFAST and related instructions. The stress scenarios, risks, and financial results which SunTrust discloses do not necessarily reflect SunTrust’s future expectations.

Summary of Methodology and Review of Risks

To support the assessments used to create the DFAST projections, SunTrust utilized multiple forms of quantitative and qualitative analysis. SunTrust and the FRB developed hypothetical macroeconomic scenario variables that serve as key inputs in SunTrust’s financial forecasts of specific balance sheet, income statement, and loan loss categories. The financial forecasts employed multiple modeling techniques including driver-based models, historical trend analysis, regression analysis, and simulation. Overall, the methodologies employed were used to produce projections for revenues, expenses, provision for loan and lease losses, and changes in capital under the each of the scenarios.

These forecasts were supplemented, as appropriate, with management judgment to ensure appropriate consideration of SunTrust-specific factors and to mitigate limitations in estimations. To promote robust scenario and forecast development, SunTrust has established thorough and heavily governed processes, including challenge processes. Challenges are designed to foster candid, informed, and effective discussion regarding forecast methodologies and results. They occur throughout the forecast development process and at multiple organizational levels, including the Risk Committee of the Board of Directors. The challenge process may result in adjustments to modeled output. As a result, certain adjustments have been made to the forecasts, including modifications to the growth rates of certain asset categories, as well as adjustments to particular income categories.

In conducting the DFAST 2015 annual stress test, SunTrust assumed capital actions in accordance with the Supervisory and Company-Run Stress Test Requirements for bank holding companies or savings and loans holding companies, Final Rule under §§ 252.144 and 252.145 (Amended November 26, 2014), as follows:

- (1) For the first quarter of the planning horizon, the bank holding company must take into account its actual capital actions as of the end of that quarter; and*
- (2) For each of the second through ninth quarters of the planning horizon, the bank holding company must include in the projections of capital:*
 - i. Common stock dividends equal to the quarterly average dollar amount of common stock dividends that the company paid in the previous year (that is, the first quarter of the planning horizon and the preceding three calendar quarters);*
 - ii. Payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter;*
 - iii. An assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio; and*
 - iv. An assumption of no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation.*

SunTrust also assessed various types of risks in its stress testing activities. As part of its ongoing capital management program, SunTrust utilizes a comprehensive risk identification process to help ensure that capital adequacy is evaluated based upon the Company's material risks, its associated risk profile, and the business operating environment. The Company carefully reviews the identified risks and determines the extent to which their impacts are captured in the capital measures utilized by SunTrust. This risk assessment was conducted for DFAST 2015 and included the following broad categories:

- **Interest Rate** – exposure of net interest income and market value of equity to adverse movements in interest rates is a primary risk, and mainly arises from the structure of the balance sheet, which includes all loans;
- **Market** – exposure to changes in asset and liability values due to changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices;
- **Credit** – exposure to borrowers' failure to meet the terms of their contracts with SunTrust, including counterparty credit exposure arising from hedging activities and client needs. A number of SunTrust products expose the Company to credit risk, including loans, leveraged loans, leases and lending commitments, derivatives, trading assets, insurance arrangements with respect to such products, and assets held for sale;
- **Legal & Regulatory** – violations of, or nonconformance with, laws, rules, regulations, prescribed practices, or ethical standards; litigation and/or legal risks stemming from either real or perceived wrongdoing in a line of business or functional area. Furthermore, changes to statutes, regulations, or regulatory policies, including interpretation or implementation of statutes, regulations, or policies, could affect SunTrust adversely, including limiting the types of financial services and products offered and/or increasing the ability of nonbanks to offer competing financial services and products. Also, noncompliance with laws, regulations, or policies, could subject the Company to regulatory sanctions and damage to its reputation;
- **Operational** – inadequacy or failure of internal processes, people and/or systems, or from external events that negatively impact internal processes, people and/or systems;
- **Liquidity** – the risk of being unable to meet financial obligations as they come due under normal or stressed conditions. A persistent lack of liquidity could limit the Company's ability to fund and thus originate new loans;

- **Model** – unexpected model variance or invalid assumptions within decision-making tools; misuse of models or tools; or misinterpretation of model-derived results;
- **Strategic** – the inability to execute on the Company’s strategic plan. The business strategy may suffer if the Company is unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially, resulting in uncompetitive product and service offerings. Business strategy, product offerings, and profitability may also be affected by regulatory rules and guidance and may change as these and other rules are developed, become effective, and are interpreted by the regulators and courts; and
- **Reputational** - Negative public opinion could result from actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold to meet clients' expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company’s ability to keep and attract and/or retain clients and personnel and can expose it to litigation and regulatory action. Negative public opinion could also affect SunTrust’s credit ratings, which are important to accessing unsecured wholesale borrowings.

Upon assessing various risks, forecasted credit losses, the allowance for loan and lease losses (“ALLL”), pre-provision net revenue (“PPNR”), and quarterly net income, SunTrust reviewed its pro-forma capital levels and confirmed they remained above acceptable regulatory and Company-defined limits. As part of this determination, the Risk Committee of SunTrust’s Board of Directors and other senior management members reviewed, challenged, and approved the risk assessment process and the financial forecasts, which are summarized below.

Supervisory Severely Adverse Scenario

The Supervisory Severely Adverse scenario features a deep and prolonged recession in the United States in which the unemployment rate increases by 4 percentage points from its level in the third quarter of 2014, peaking at 10 percent in the middle of 2016. By the end of 2015, the level of real GDP is approximately 4.5 percent lower than its level in the third quarter of 2014; it begins to recover thereafter. Despite this decline in real activity, higher oil prices drive the annualized rate of change in the CPI to reach 4.3 percent in the near term, before subsequently falling. In response to this economic contraction, Treasury yields of all maturities are relatively lower throughout the scenario than in the Supervisory Baseline scenario. Spreads on investment grade corporate bonds increase from about 170 basis points to 500 basis points at their peak due to an assumed decline in corporate credit quality.

Equity prices fall by approximately 60 percent from the third quarter of 2014 through the fourth quarter of 2015, and equity market volatility increases sharply. House prices decline by approximately 25 percent during the scenario period relative to their level in the third quarter of 2014, while commercial real estate prices are more than 30 percent lower at their trough compared to their level at third quarter of 2014.

The following tables provide quantitative information for the DFAST 2015 annual SunTrust stress test under the Supervisory Severely Adverse scenario. Included are SunTrust’s estimated cumulative loan losses, pre-provision net revenue, provision for loan and lease losses, and capital metrics based on the macroeconomic conditions prescribed under the Supervisory Severely Adverse scenario.

Projected loan losses, by type of loan, Q4 2014 - Q4 2016		
	Billions of dollars	Portfolio 9-quarter loss rate (%) ¹
Total Loan losses	\$5.3	4.1
First-lien mortgages, domestic	0.4	1.7
Junior liens and HELOCs, domestic	0.9	7.1
Commercial and industrial ²	1.9	4.5
Commercial real estate, domestic	0.8	5.1
Credit cards	0.3	43.6
Other consumer ³	0.6	3.0
Other loans ⁴	0.4	2.5

*Numbers may not foot due to rounding

Loan losses during the nine quarter Supervisory Severely Adverse scenario are estimated to be \$5.3 billion. This represents a significant increase from the levels of losses that the Company is currently experiencing, driven primarily by commercial and industrial (“C&I”) loans and residential and commercial real estate (“CRE”) loans. First and junior lien residential real estate loan losses are primarily driven by increases in unemployment and lower home price values resulting in increased loan loss severities. CRE and C&I losses are projected to increase due to the overall decline in business activity associated with the economic downturn.

Projected losses, revenue, and net income before taxes through Q4 2016		
	Billions of dollars	Percent of average assets ⁵
Pre-provision net revenue ⁶	\$3.3	1.8
Other revenue ⁷	-	-
<i>less</i>		
Provisions	6.2	3.4
Realized losses/gains on securities (AFS/HTM)	0.0	0.0
Trading and counterparty losses ⁸	0.0	0.0
Other losses/gains ⁹	(0.1)	0.0
<i>equals</i>		
Net income before taxes	(2.9)	(1.6)

*Numbers may not foot due to rounding

SunTrust’s nine quarter pre-tax profitability during the Supervisory Severely Adverse scenario is estimated to be \$(2.9) billion. The primary driver of the loss is the elevated level of the provision for loan and lease losses. Pre-provision net revenue is also projected to decline substantially from current levels. The primary drivers of lower PPNR include lower net interest income due to loan balance declines, reductions in noninterest income (principally in mortgage production, investment banking, and investment management revenue), and increased noninterest expense (primarily due to increased operational losses).

¹ Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option, and are calculated over nine quarters.

² Commercial and industrial loans include small- and medium- enterprise loans and corporate cards.

³ Other consumer loans include student loans and automobile loans.

⁴ Other loans include international real estate loans.

⁵ Average assets are the nine-quarter average of total assets.

⁶ Pre-provision net revenue includes losses from operational-risk events, mortgage repurchase expenses, and other real estate owned costs.

⁷ Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.

⁸ Trading and counterparty losses include mark-to-market and credit valuation adjustments losses and losses arising from the counterparty default scenario component applied to derivatives, securities lending, and repurchase agreement activities.

⁹ Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Projected stressed capital ratios through Q4 2016 ¹⁰			
	Actual Q3 2014	Stressed capital ratios ¹¹	
		Ending	Minimum
Tier 1 common ratio (% , Basel I)	9.6	8.6	8.6
Common Equity Tier 1 ratio (% , Basel III) ¹²	N/A	8.7	8.7
Tier 1 risk-based capital ratio (%)	10.5	9.5	9.5
Total risk-based capital ratio (%)	12.3	11.4	11.4
Tier 1 leverage ratio (%)	9.5	8.2	8.2

Actual Q3 2014 and Projected Q4 2016 Risk-Weighted Assets			
	Actual Q3 2014	Projected Q4 2016	
		Current general approach	Basel III standardized approach
Risk-weighted assets (billions of dollars) ¹³	\$160.0	\$148.4	\$146.4

Due to the net loss, SunTrust's capital ratios are projected to decline in the Supervisory Severely Adverse scenario; this is partially mitigated by lower risk-weighted assets, primarily due to lower loan balances over the course of the forecast horizon. **Despite the capital ratio decline, the Company remains well capitalized throughout the forecast horizon, with all ratios well above regulatory minimums.**

SunTrust Bank Capital Ratios

Projected stressed capital ratios through Q4 2016			
	Actual Q3 2014	Stressed capital ratios	
		Ending	Minimum
Tier 1 common ratio (% , Basel I)	10.6	9.8	9.8
Common Equity Tier 1 ratio (% , Basel III) ¹⁴	N/A	9.9	9.9
Tier 1 risk-based capital ratio (%)	10.7	9.8	9.8
Total risk-based capital ratio (%)	12.4	11.2	11.2
Tier 1 leverage ratio (%)	9.7	8.6	8.6

¹⁰ SunTrust does not include accumulated other comprehensive income (AOCI) in its calculations of regulatory capital, as only advanced approaches BHCs are required to include AOCI in calculations of regulatory capital. Other comprehensive income includes incremental unrealized losses/gains on AFS securities and on any HTM securities that have experienced other than temporary impairment.

¹¹ The capital ratios are calculated using capital action assumptions provided within the Dodd-Frank Act stress testing rule. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts of expected losses, revenues, net income before taxes, or capital ratios. The minimum capital ratio presented is for the period 2014:Q4 to 2016:Q4.

¹² The Company is not subject to the common equity tier 1 ratio for the third and fourth quarter of 2014. All bank holding companies are subject to the common equity tier 1 ratio for each quarter of 2015 and 2016. As a non-advanced approaches BHC, SunTrust is subject to 12 CFR 225.8.

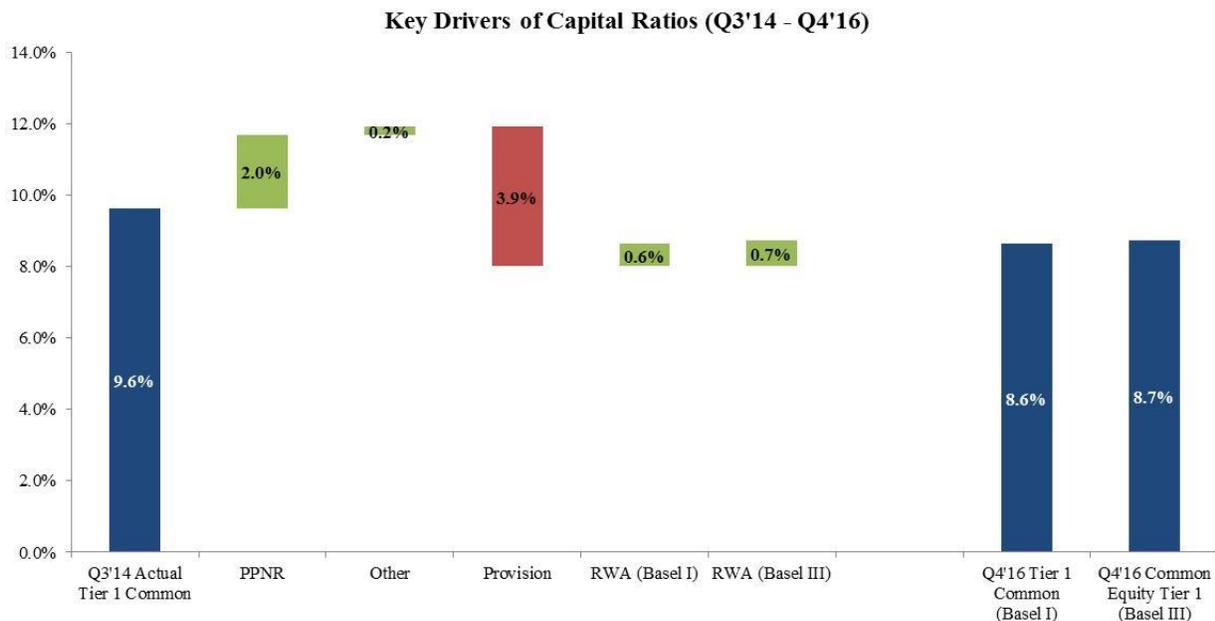
¹³ For each quarter in 2014, risk-weighted assets are calculated using the current general risk-based capital approach. For each quarter in 2015 and 2016, risk-weighted assets are calculated under the Basel III standardized capital risk-based approach, except for the tier 1 common ratio which uses the general risk-based capital approach for all quarters.

¹⁴ The Company is not subject to the common equity tier 1 ratio for the third and fourth quarter of 2014. All bank holding companies are subject to the common equity tier 1 ratio for each quarter of 2015 and 2016. As a non-advanced approaches BHC, SunTrust is subject to 12 CFR 225.8.

Changes in Capital and Capital Ratios

Throughout the nine-quarter horizon of the Supervisory Severely Adverse scenario, SunTrust’s capital levels are projected to well exceed regulatory minimums. For each quarter within the stress test horizon, equity capital estimates are generated by incorporating the after-tax net income and the prescriptive standardized capital actions over the course of that quarter into the equity capital position of the preceding quarter. Items excluded from regulatory capital purposes, most notably Goodwill and AOCI, are then deducted from the equity capital balance. The projected risk-weighted assets are then used to generate the pro-forma capital ratios used to determine SunTrust’s capital adequacy.

Under the hypothetical Supervisory Severely Adverse scenario, SunTrust’s Tier 1 Common Ratio (Basel I) and Common Equity Tier 1 Ratio (Basel III) would be projected to decline approximately 100 basis points and 90 basis points, respectively, from September 30, 2014 through December 31, 2016. The primary driver for this reduction in capital levels is provision expense of \$6.2 billion exceeding \$3.3 billion of pre-provision net revenue. Furthermore, a decrease in RWA over the forecast horizon results in a positive impact to the capital ratios, with RWA decreasing more under the Basel III regime than under Basel I. The chart below shows the impact of the changes over the course of the Supervisory Severely Adverse scenario:



**Other includes a Net Tax Benefit, the impacts of DFAST Standardized Capital Actions Numbers may not foot due to rounding*

SunTrust has less than \$0.1 billion of disallowed deferred tax assets in the Supervisory Severely Adverse scenario under Basel I, and has approximately \$0.3 billion of disallowed deferred tax assets at the end of the nine-quarter forecast horizon under Basel III. Additionally, it should be noted that, per the FRB’s instructions, the capital actions assumed under DFAST do not represent SunTrust’s planned capital actions.

Summary

The results of SunTrust's annual Dodd-Frank Act Stress Test indicate that the Company will have the financial resources at its disposal to successfully navigate a severe and protracted economic downturn and will maintain capital levels that exceed regulatory minimums throughout the course of the Supervisory Severely Adverse scenario. SunTrust considers the possible emergence of the FRB's Supervisory Severely Adverse scenario to be remote, and it would expect the economic scenario that does materialize over the course of the forecast horizon to be materially more positive.

Further, the results of the scenario simulation reflect certain assumptions prescribed by rules or instructions issued by the Federal Reserve Board that may not be consistent with SunTrust's practices over the normal course of business, even under adverse economic scenarios. For instance, the standardized capital actions prescribed by the Dodd-Frank Act hypothetically supersede the execution of SunTrust's current capital plan. Given the emergence of a severe economic downturn and potential capital erosion, the Company would take certain capital conservation actions consistent with its internal policies, including a submission of a revised capital plan with an amended set of more conservative actions. These actions may differ from those prescribed as the standardized Dodd-Frank capital actions.

Important Cautionary Note

As noted above, SunTrust's disclosures of projected results, risks, and assumptions are hypothetical and made pursuant to the requirements of the Federal Reserve's DFAST and related instructions. These scenarios and assumptions do not necessarily reflect SunTrust's future expectations. These statements including statements regarding projected capital levels, likely risks, and projected macroeconomic conditions under specific, hypothetical scenarios are forward-looking statements. Also any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words "believes," "expects," "anticipates," "estimates," "intends," "plans," "goals," "targets," "initiatives," "potential" or "potentially," "probably," "projects," "outlook" or similar expressions or future conditional verbs such as "may," "will," "should," "would," and "could." Such statements are either based upon the current beliefs and expectations of management and on information currently available to management or upon hypothetical assumptions required under DFAST. Such statements speak as of the date hereof, and we do not assume any obligation to update these statements or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events. Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. We list some of the factors that could cause actual results to differ materially from those described in the forward-looking statements in Item 1A of Part I of our 10-K and in other periodic reports that we file with the SEC.