

SunTrust Banks, Inc.
Dodd-Frank Act 2018 Mid-Cycle Stress Test
Results Disclosure

October 5, 2018

Overview

SunTrust Banks, Inc. (“SunTrust” or the “Company”) regularly evaluates financial and capital forecasts under various economic scenarios as 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 and submitted these results to the FRB, as required, prior to October 05, 2018. This document outlines the approach SunTrust utilized in this mid-cycle DFAST process, as well as certain summary results.

For the 2018 mid-cycle DFAST, SunTrust developed three hypothetical economic scenarios - Baseline, Adverse, and Severely Adverse. The Company then estimated the impact to its financial performance and capital position under the economic conditions prescribed in the three scenarios. The forecast time horizon of the stress tests covered the nine-quarter period beginning in the third quarter of 2018 (July 1, 2018) and continuing through the end of the third quarter of 2020 (September 30, 2020). In accordance with regulatory guidance, this document presents a summary of results of SunTrust’s company-run mid-cycle stress test conducted under the Severely Adverse scenario.

The results of SunTrust’s mid-year Dodd-Frank Act Stress Test indicate that the Company will have sufficient financial resources at its disposal to successfully navigate a severe and protracted economic downturn and will maintain capital levels that well 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 and, therefore, 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 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, risk-weighted assets and changes in capital and liquidity under each of the scenarios. Details of the methodologies are described in subsequent sections of this disclosure.

These forecasts were supplemented, as appropriate, with management judgment to ensure appropriate consideration of SunTrust-specific factors, and to mitigate limitations in estimation methodologies. To promote robust scenario and forecast development, SunTrust has established governance processes, including a challenge process.

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, up to and 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 2018 DFAST mid-cycle stress test, SunTrust assumed capital actions in accordance with the Supervisory and Company-Run Stress Test Requirements for U.S. Bank Holding Companies with \$50 Billion or More in Total Consolidated Assets, Final Rule under 12 CFR § 252.56 (Amended November 25, 2015), 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) plus common stock dividends attributable to issuances related to expensed employee compensation or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the covered company's pro forma balance sheet estimates;

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 or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the covered company's pro forma balance sheet estimates.

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 2018 mid-cycle 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, leases and lending commitments, derivatives, trading assets, insurance arrangements with respect to such products, and assets held for sale;

- **Legal & Regulatory** – violations of, or non-conformance 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. Business strategies, 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 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”), provision net revenue (“PPNR”), and quarterly net income, SunTrust reviewed its pro-forma capital levels and confirmed they remained above applicable 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.

Severely Adverse Scenario Background

The Severely Adverse scenario is a hypothetical economic scenario that is meant to represent a deteriorating macroeconomic environment and to expose certain potential vulnerabilities in SunTrust's business profile. This scenario, which was developed by SunTrust in conjunction with third parties, assumes a deep economic recession, driven by abrupt deterioration in global trade prospects. This hypothetical stress scenario is as follows:

- A deflationary scenario that develops as a result of a global economic stress. The recession begins in the fourth quarter of 2018 and lasts five quarters. It is a severe global recession sparked by deterioration in Europe and China and precipitated by a significant financial shock that severely impacts household sector balance sheets;
- Financial market volatility spikes and the U.S. stock market declines sharply as a result. Consumers shift assets from equities into U.S Treasury securities, keeping fixed income yields low over the scenario;
- Real GDP declines for five quarters, cumulatively by 5.2% peak to trough;
- The unemployment rate increases from 4.0% in the second quarter of 2018 to 10.2% by mid-2020;
- Foreclosures increase, and federal support to the housing market is limited compared to the 2008-2009 recession. As a result, housing prices fall approximately 23% and housing starts decline as builders recall the prior crisis;
- To prevent the economy from sliding further, the Federal Reserve assumes an accommodative monetary policy by dropping short-term interest rates to near zero over the first two quarters, and maintaining that stance through the scenario horizon;
- Corporate bond yields increase above current levels, expansionary business investment declines;
- Reduced household wealth, high unemployment, and depressed consumer confidence cause consumers to further reduce spending;
- SunTrust also incorporates several additional idiosyncratic factors into the scenario. These factors, such as operational or market events, are generally not incorporated through the projection of a macroeconomic variable, but are rather simply assumed to occur at a given point in the scenario.

While the effects of this scenario are applied nationally across each of SunTrust's lines-of-business and corporate functions, this scenario, which incorporates a stress on home prices, was specifically designed to incorporate additional increased stresses to SunTrust's geographic footprint. The scenario was used to assess SunTrust's ability to withstand the impact of a national economic deterioration that had its epicenter in the Company's geographic footprint.

As additional context, the table below describes the general economic and interest rate environments that underlie the hypothetical Severely Adverse scenario. While this set of variables provides a high-level overview of the key assumptions, the full scenario consisted of a more detailed suite of variables at both national and sub-national (i.e. Regional & State) levels.

Paths of Indicative Variables for the Severely Adverse Scenario									
Projected Variable	2018		2019				2020		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP (\$B)	17,538	17,452	17,243	16,994	16,772	16,628	16,637	16,709	16,804
Unemployment (%)	4.0	4.3	5.1	6.2	7.5	8.7	9.7	10.2	10.2
S&P 500 Composite Index	2,197	1,556	1,365	1,428	1,551	1,659	1,788	1,838	1,888
10 Yr. Treasury (%)	2.9	2.3	1.4	1.2	1.4	1.7	1.8	1.8	1.9
30 Yr. Mortgage Rate (%)	4.9	4.7	3.9	3.6	3.7	3.8	3.7	3.8	3.8
BBB Corporate Yield (%)	5.7	7.3	7.1	6.5	6.3	6.1	5.7	5.1	4.8
Home Prices - CoreLogic 20 Metro Composite	213	213	207	200	190	184	177	170	164
Oil Prices - WTI (\$/bbl)	71	64	51	36	27	27	29	30	32
Manheim Used Vehicle Value Index	134	129	120	114	110	108	110	115	120
Consumer Confidence Index	114	96	77	59	46	36	26	21	23

Quantitative Results

The following tables provide quantitative information for the DFAST 2018 mid-cycle SunTrust stress test under the 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 economic conditions assumed under the Severely Adverse scenario.

Projected loan losses, by type of loan, Q3 2018 – Q3 2020		
	Billions of dollars	Portfolio 9-quarter loss rate (%) ¹
Total Loan losses	\$5.0	3.4%
First-lien mortgages, domestic	0.3	1.0%
Junior liens and HELOCs, domestic	0.2	2.6%
Commercial and industrial ²	2.2	4.9%
Commercial real estate, domestic	0.7	3.4%
Credit cards	0.3	17.1%
Other consumer ³	1.1	4.1%
Other loans ⁴	0.2	1.2%

**Numbers may not foot due to rounding*

Loan losses during the nine quarter Severely Adverse scenario are estimated to be \$5.0 billion. This represents a significant increase from the levels of losses that the Company is currently experiencing, with the primary increase driven by commercial and industrial (“C&I”) 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. Commercial Real Estate (“CRE”) and C&I losses are projected to increase due to the overall decline in business activity associated with the economic downturn.

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.

Projected losses, revenue, and net income before taxes through Q3 2020		
	Billions of dollars	Percent of average assets ⁵
Pre-provision net revenue ⁶	\$5.1	2.5
Other revenue ⁷	-	-
<i>Less</i>		
Provisions	6.5	3.2
Realized losses/gains on securities (AFS/HTM)	0.0	0.0
Trading and counterparty losses ⁸	0.0	0.0
Other losses/gains ⁹	0.0	0.0
<i>Equals</i>		
Net income before taxes	(1.4)	(0.7)

*Numbers may not foot due to rounding

SunTrust's nine-quarter pre-tax profitability during the Severely Adverse scenario is estimated to be \$(1.4) billion. The primary driver of the loss is the elevated level of 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 reductions in noninterest income (principally in mortgage production, investment banking, and investment management revenue), and increased noninterest expense (primarily due to increased operational losses).

Projected stressed capital ratios through Q3 2020 ¹⁰			
	Actual Q2 2018	Stressed Capital Ratios ¹¹	
		Ending	Minimum
Common Equity Tier 1 ratio (%) (Basel III)	9.7	8.2	8.2
Tier 1 risk-based capital ratio (%) (Basel III)	10.9	9.3	9.3
Total risk-based capital ratio (%) (Basel III)	12.7	11.5	11.5
Tier 1 leverage ratio (%) (Basel III)	9.8	8.2	8.2

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 adjustment 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.

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 2018:Q3 to 2020:Q3.

	Actual Q2 2018 and Projected Q3 2020 Risk-Weighted Assets	
	Actual Q2 2018	Projected Q3 2020
Risk-weighted assets (billions of dollars)	\$180.9	\$175.0

Due to the net loss, SunTrust's capital ratios are projected to decline in the 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.**

It is important to note that, in line with instructions published by the Federal Reserve regarding the phase-in and regulatory capital treatment of certain items (i.e., mortgage servicing assets, certain deferred tax assets, investments in the capital of unconsolidated financial institutions, and minority interest), SunTrust applied the transition provisions applicable through June 30, 2018 for these items over the 9-quarter planning horizon.

Qualitative Results - Key Risks Included in the Severely Adverse Scenario

The Severely Adverse scenario disclosed herein is one of three scenarios that were tested as part of the mid-cycle DFAST exercise. While the scenario results represent a forecast of the performance of the Company over a given economic scenario, the specific details of the individual scenarios dictate the impact of each of certain risks on SunTrust's income statement, balance sheet, and capital ratios.

The Severely Adverse scenario that underlies SunTrust's DFAST submission is designed to enable a full simulation of the performance of the entire enterprise. To explain the evaluation of risks inherent in SunTrust's Severely Adverse scenario, the following sections provide a brief description of certain risks and how they are addressed within the scenario.

I. Credit Risk

The credit performance of SunTrust's loan portfolio can have a significant impact on earnings. SunTrust estimates and establishes reserves for credit risks and credit losses inherent in its credit exposure (including unfunded credit commitments). This process, which is critical to SunTrust's financial results and condition, requires subjective and complex judgments.

SunTrust projects the effect of credit risk under the three scenarios based on the credit product being evaluated. Broadly speaking, the projected economic environment presents a significant stress on SunTrust's loan and lease portfolio, with asset quality deteriorating and net charge-offs and credit-related noninterest expenses increasing significantly from current levels. It should be noted that the methodologies listed are applied at a more granular level for loss forecasting and aggregated for DFAST disclosure purposes. The types of methodologies employed by product are listed below:

a. First Lien Mortgages

First Lien Mortgage losses are projected using econometrically driven roll-rate models that use variables at various levels of geographic granularity to condition delinquency transition matrices. The matrices define the velocity at which credits migrate through the various stages of delinquency. These delinquency roll-rates are applied to the portfolio to predict delinquency and default volumes. Timing curves are then derived to account for geographic differences in foreclosure timelines, lag and severity of home price deterioration, etc. The forecasting models allow for macroeconomic inputs to be stressed. Stressing both the incentive and the ability to repay loans results in higher default frequency and loss severity, thereby adversely impacting future losses.

b. Junior Lien Mortgages and HELOCs

Junior Lien Mortgage losses are projected using a similar method to that of First Lien Mortgages, but there are additional idiosyncratic risks that must be taken into consideration for these portfolios. For example, Junior Lien Mortgages and HELOCs typically experience higher loss severity due to subordinated lien positions.

c. C&I and CRE

Credit loss forecasts for C&I and CRE portfolios are both composed of two separate processes: Credit losses on existing Nonperforming Loans (“NPL”) and credit losses stemming from loans not currently categorized as NPL.

Existing NPLs are loans already in default; however, the loss severity, and ultimate resolution timing have yet to be determined. NPLs are resolved in the existing framework in one of four ways: charge-off, payoff, transfer to Other Real Estate (“ORE”), or return to accrual. Existing NPLs are modeled using a combination of bottom-up loan level forecasts and quantitatively applied assumptions.

Future inflows to NPLs come from defaults in the performing loan portfolio and must transition, migrate, or otherwise move to NPL status before the resolution process begins. Loan level characteristics form the basis of this quantitative approach. Movement to default within the model is a product of selected input parameters in combination with loan probability of default (“PD”) risk ratings. The timing of resolution is driven by estimates based on internal historical experience.

Both C&I and CRE losses are expected to increase under the hypothetical environment, though driven by different factors. C&I lending will be impacted by the general level of business activity, rising unemployment, increased market volatility, and several quarters of negative changes in GDP. CRE lending is also impacted by the general business environment, though the ability of the underlying collateral to create rental income also has an impact on the ability of the borrower to repay. As property values decrease in this scenario, it has a compounding effect on asset quality, as both loss frequency and severity increase.

d. Credit Cards

SunTrust incorporates an econometrically-driven model that develops loss curves based on vintage seasoning, vintage credit quality, and macroeconomic variables. As the economic environment deteriorates, higher loss rates are generated by the Credit Card portfolio.

e. Other Consumer

The Other Consumer category includes Auto Loans, Student Lending, and Consumer Direct Loans. Several techniques are used to estimate losses on these portfolios. In general, losses on these portfolios increase as a

result of the projected adverse economic scenario, but they do so in different ways. For example, the vast majority of the Student Loan portfolio is supported by government guarantees that limit the loss content on those loans. Auto Loan performance has shown some measure of resilience over past recessionary periods, with loss rates being less volatile relative to other asset classes, though its loss severities are susceptible to declines in collateral values. Lastly, Consumer Direct is sensitive to changes in unemployment rates.

II. Market Risk

SunTrust has exposure to Market Risk through Interest Rate Risk in the following areas of the Company: Corporate Treasury, SunTrust Mortgage, Private Wealth Management, and Corporate & Investment Banking (“CIB”). The primary risk results from SunTrust’s balance sheet positioning, which produces exposure from adverse movements in interest rates on the Company’s (i) net interest income, which represents the majority of SunTrust’s revenue, or (ii) market value of equity, which reflects the net present value of the cash flows from all on- and off-balance sheet items. However, the stress scenarios considered do not materially affect the structural interest rate risk profile.

In addition, the Company has certain assets and liabilities where the value may fluctuate due to changes in underlying macroeconomic variables, resulting in gains or losses. The price fluctuations of these assets and liabilities, and the resulting income impact, are considered in the Severely Adverse scenario.

III. Liquidity Risk

SunTrust employs a governance process for liquidity management to ensure that both the Bank and the Parent Company retain sufficient normal and contingency liquidity to meet projected obligations under a wide range of market conditions. SunTrust assesses the potential for contingency liquidity risk through its monitoring of specified idiosyncratic and systemic risk factors.

SunTrust expects to maintain a robust liquidity position throughout the forecast horizon and to keep sufficient cash and liquid securities positions to fund the Company and meet all of its obligations. This expectation extends to the Severely Adverse scenario, which incorporates the interest environment to determine the cost of funding SunTrust’s balance sheet on an ongoing basis, as well as the scheduled payments on all its liabilities.

IV. Operational Risk Losses

The Operational loss forecast, in the Severely Adverse scenario, is composed of an aggregation of four primary components: (i) a historical based quantitative operational risk projection, (ii) stressed legal losses, (iii) litigation expenses, and, (iv) events derived by scenario analysis. SunTrust’s estimate of Operational Risk losses takes into account the potential for unforeseen Operational Risk issues that could manifest themselves over the course of the hypothetical scenario.

Qualitative Results – Impacts of Scenarios to Revenue and Expenses

The preceding sections focused on providing insight into the impacts of risks SunTrust faces in its daily operations and how the behavior of those risks is projected over an adverse economic environment. However, not all of the impacts of a given economic scenario manifest themselves through commonly used risk archetypes. The section that follows provides an overview of how SunTrust leverages that experience, creating models, processes, and techniques that are used to derive the results for income and expense in a Severely Adverse scenario.

I. Net Interest Income

Changes in the underlying interest rate environment, the competitive environment, or the amount of assets or liabilities held affect net interest income and the Company's earnings. The hypothetical interest rate environment of the Severely Adverse scenario is used to estimate the behavior of SunTrust's assets and liabilities to calculate net interest income.

a. Loans and Other Interest Earning Assets

SunTrust uses a cash flow modeling engine containing the underlying rate indices, including rates for Fed Funds, Prime, LIBOR, U.S. Treasuries, and Mortgages, along with product-specific drivers such as pricing indices, prepayment assumptions and maturity. Loan balances are projected to decline over the course of this scenario given the deteriorating economic climate, as businesses forego expansion plans and consumers deleverage.

b. Deposits & Other Interest Bearing Liabilities

SunTrust forecasts the quarterly rates of change in deposit balances using a series of quantitative models incorporating key macroeconomic drivers, including the S&P 500, CPI growth, LIBOR/swap rates and spreads, and U.S. Treasury yields and spreads. Deposit balances by product are combined with forecast interest rates paid to determine total interest expense and non-interest income items. The low interest rate environment projected in the Severely Adverse scenario results in continued low deposit rates.

II. Primary Noninterest Income Items

a. Retail and Small Business Deposits

Noninterest income from Retail and Small Business Deposits is comprised of non-sufficient funds ("NSF") / overdraft fees, debit interchange, and other deposit related fees (e.g. Automated Teller Machine fees). The primary macroeconomic drivers affecting retail and small business noninterest income are retail sales and Personal Consumption Expenditures (PCE). The reduction in business and consumer transaction volume that is projected under the Severely Adverse scenario decreases the incidence of fee-based activity, reducing noninterest income for service charges and fees.

b. Mortgage Production & Servicing Income

Noninterest Income for Mortgage consists primarily of three areas: Production, Servicing, and Provisions to Repurchase Reserves/Liabilities for Residential Mortgage Representations and Warranties.

There are two primary components to Mortgage Production Income: (i) the gain or loss on the sale of mortgage loans; and (ii) other production-related income, including origination fee income. Both of these components decline from the levels of income preceding the forecast period.

Servicing income for residential mortgages is comprised of several components including: Servicing fees, hedge value changes, decay, and the total value change of Mortgage Servicing Rights.

Finally, there is a projected increase in Repurchase Provision arising from representations and warranties made in connection with the sale of mortgage loans to investors. SunTrust is required to record a liability for loss contingencies related to sold loans.

c. Investment Banking and Sales & Trading

Included within Investment Banking are Advisory Services, Equity Capital Markets, Debt Capital Markets, and Syndicated/Corporate Lending. Sales & Trading noninterest income is comprised of Equities, Fixed Income (including the sub-categories of Credit, Rates, and Other), Commodities, and Prime Brokerage. Both Investment Banking and Sales & Trading income are negatively impacted in the Severely Adverse scenario, primarily driven by lower levels of client activity.

d. Investment Management

In determining Investment Management income, the primary driver is, but not limited to, Assets Under Management, since income is primarily generated from asset management fee schedules instead of transaction-based or performance-sharing programs. Given the relationship between this business segment and the performance of fixed income and equity markets, there is a decline in investment management income in the Severely Adverse scenario.

III. Primary Non Interest Expense Items

a. Compensation

Compensation expense is forecasted using several driver-based techniques that incorporate historical relationships between the segments of compensation expense, revenue categories, as well as Full Time Employee (“FTE”) projections under each of the scenarios. Changes to FTE counts are expected to vary by business function depending on the role of the function and internal strategic initiatives, and SunTrust utilizes these relationships coupled with the macroeconomic environment via changes in labor force participation rates, unemployment, and GDP for the forecast.

b. Operational Risk Expense

Incorporated into the Operational Risk Expense category are Operational Risk Losses, Legal Losses, and Litigation Expense. The methodology used for Operational Risk Losses is described earlier in this document, in Section IV of the Qualitative Results - Key Risks Included in the Severely Adverse scenario. Operational Risk Expense increases materially over the course of the scenario, due to the deteriorating operating environment, but also in part to the occurrence of hypothetical large operational risk losses that are included as part of the Operational Risk Expense projection.

IV. Provision Expense

SunTrust estimates the Allowance for Loan and Lease Losses (“ALLL”) through the use of analytics and management judgment. The nine-quarter forecasted provision expense covers forecasted net charge-offs plus the change in forecasted ALLL over the nine-quarter forecast horizon. Note that forecasted ALLL levels do not incorporate perfect foresight in respect to incurred portfolio losses, consistent with current GAAP and SR 06-17.

Discussion of Overlays and Judgment

While SunTrust’s DFAST submission relies heavily on quantitative models, the value of management input and judgment cannot be discounted. This is particularly true with respect to the impact of strategic initiatives and qualitative overlays.

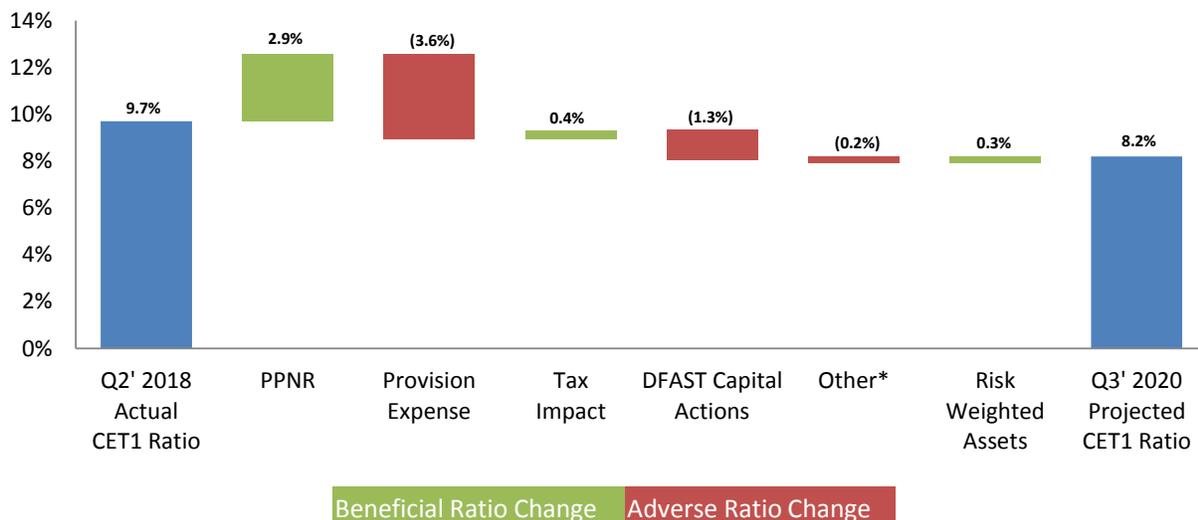
To ensure consistency within the scenarios, SunTrust has a thorough and heavily governed challenge process to incorporate overlays and adjustments to modeled outputs. This process is designed to foster candid, informed, and effective challenge to forecast results at several levels of review.

Changes in Capital and Capital Ratios

Throughout the nine-quarter horizon of the Severely Adverse scenario, SunTrust’s capital levels are projected to well exceed regulatory and internal limits. 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 for 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.

Shown below, under the hypothetical Severely Adverse scenario, SunTrust’s Common Equity Tier 1 Ratio would be projected to decline approximately 150 basis points from June 30, 2018 through September 30, 2020. The primary driver for this reduction in capital is provision expense of \$6.5 billion exceeding \$5.1 billion of PPNR.

Key Drivers of Change in Common Equity Tier 1 Ratio (Q2'18-Q3'20)



* Other includes realized gains/losses on securities (AFS/HTM), trading and counterparty losses, and projected change in the fair value of loans held for sale and loans held for investment measured under the fair-value option, as well as regulatory capital adjustments and deductions.

Summary

Results of SunTrust's Mid-Year Dodd-Frank Act Stress Test indicate that the Company has sufficient financial resources at its disposal to successfully navigate a severe and protracted economic downturn and will maintain capital levels that exceed regulatory and internal minimums throughout the course of the Severely Adverse scenario. SunTrust considers the possible emergence of the Severely Adverse scenario to be remote, and expects 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. Importantly, given the emergence of a severe economic downturn and potential capital erosion, the Company would likely take certain capital conservation actions consistent with its internal policies, including the 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 disclosures, including statements regarding projected capital levels, loan losses, revenue, net income and risk-weighted assets, 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.