# Statement of Financial Condition and Supplemental Information

SunTrust Robinson Humphrey, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)
Unaudited as of June 30, 2015

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## Contents

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(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

## Statement of Financial Condition

Unaudited as of June 30, 2015

(*In Thousands, Except Share Amounts)*

| | | |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ | 529 |
| Cash and securities segregated under Federal and other regulations | | 30,040 |
| Deposits with clearing organizations and others | | 18,519 |
| Receivable from brokers | | 11,391 |
| Customer receivables | | 9,322 |
| Securities purchased under agreements to resell | | 794,251 |
| Securities borrowed | | 312,394 |
| Securities owned and derivatives: | | |
| U.S. government and agency obligations | | 1,042,472 |
| Corporate debt, derivatives and other securities | | 577,333 |
| Commercial paper | | 165,096 |
| State and municipal obligations | | 32,158 |
| Total securities owned and derivatives (including encumbered securities of $1,075,260) | | 1,817,059 |
| Goodwill | | 131,440 |
| Accrued interest and other income receivable | | 65,589 |
| Net deferred tax assets | | 24,559 |
| Income tax receivable from Parent | | 685 |
| Furniture, equipment, and leasehold improvements, less accumulated depreciation and amortization of $65,274 | | 21,514 |
| Net receivables for unsettled securities transactions | | 108,014 |
| Other assets | | 6,237 |
| Total assets | | 3,351,543 |
| **Liabilities and shareholder's equity:** | | |
| **Liabilities:** | | |
| Securities sold under agreements to repurchase | | 1,349,930 |
| Securities sold but not yet purchased and derivatives | | 757,720 |
| Lines of credit payable to related parties | | 158,528 |
| Accrued interest payable and other liabilities | | 27,803 |
| Accrued compensation and benefits | | 47,735 |
| Payables to brokers and dealers | | 13,743 |
| Customer payables | | 7,778 |
| Due to related parties | | 83 |
| Total liabilities | | 2,363,320 |
| **Shareholder’s equity:** | | |
| Common stock, $1 par value; 100,000 shares authorized, issued, and outstanding | | 100 |
| Additional paid-in capital | | 596,370 |
| Retained earnings | | 391,753 |
| Total shareholder’s equity | | 988,223 |
| Total liabilities and shareholder’s equity | $ | 3,351,543 |

*The accompanying notes are an integral part of this financial statement.*

SunTrust Robinson Humphrey, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

# Statement of Changes in Shareholder's Equity

Unaudited as of June 30, 2015
*(In Thousands)*

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Total |
|---|---|---|---|---|
| Balance, January 1, 2015 | $ 100 | $ 596,370 | $ 351,143 | $ 947,613 |
| Net Income | – | – | 40,610 | 40,610 |
| Balance, June 30, 2015 | $ 100 | $ 596,370 | $ 391,753 | $ 988,223 |

*The accompanying notes are an integral part of this financial statement.*

## 1. Organization and Nature of Business

SunTrust Robinson Humphrey, Inc. (the Company) is a wholly owned subsidiary of SunTrust Banks, Inc. (the Parent). The Company's operations consist of buying and selling securities for its customers and its own account and certain underwriting and other brokerage activities. The corporate finance function arranges public and private debt and equity placement services and other products for its customers. In addition, the Company is an active underwriter of debt for municipalities and not-for-profit institutions. The Company is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA).

The Company self clears fixed income transactions. The Company introduces equity transactions on a fully disclosed basis through a third-party clearing broker.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could vary from those estimates.

### Subsequent Events

The Company evaluated subsequent events through the date this financial statement was issued.

**Cash and Cash Equivalents**

The Company has defined cash and cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business. The carrying amounts of cash and cash equivalents approximate their fair values.

**Collateralized Securities Transactions**

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at the contractual amounts at which the securities will be subsequently resold or repurchased. It is the Company's policy to take possession or control of securities purchased under agreements to resell at the time these agreements are entered into. The counterparties to these agreements typically are primary dealers of U.S. government securities and financial institutions. Collateral is valued daily, and additional collateral is obtained from or refunded to counterparties when appropriate.

Securities borrowed result from transactions with other broker dealers or financial institutions and are recorded at the amount of cash collateral advanced. These amounts are included in securities borrowed in the statement of financial condition. Securities borrowed transactions require the Company to deposit cash with the lender. The Company monitors the market value of securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary.

Interest accrued on securities purchased under agreements to resell and securities borrowed transactions is included in accrued interest and other income receivable in the statement of financial condition. Interest accrued on securities sold under agreements to repurchase is included in accrued interest payable and other liabilities on the statement of financial condition.

**Securities Owned**

Securities transactions and related gains and losses are recorded on a trade date basis. Unless otherwise indicated, trading assets are priced by the trading desk and independently validated against pricing received from third party pricing sources. Equity securities owned are valued at the last reported price on the exchange that they trade. Securities not readily marketable are valued at their estimated fair value based on quoted bid prices or pricing models, as determined by management; except for short positions for which the last quoted ask price is used. Amounts receivable and payable for securities transactions that have not reached their contractual final settlement date are recorded net in net receivables for unsettled securities transactions on the statement of financial condition.

**Furniture, Equipment, and Leasehold Improvements**

Furniture and equipment are recorded at historical cost. Depreciation is computed predominantly using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are recorded at historical cost. Amortization is computed using the straight-line method over the lesser of the economic useful life of the improvement or the term of the lease.

**Goodwill**

The Company reviews goodwill on an annual basis for impairment and as events occur or circumstances change that would more likely than not reduce the fair value below its carrying amount. No impairment of goodwill was recorded for the six months ended June 30, 2015.

**Impairment of Long-Lived Assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. There were no such impairments for the six months ended June 30, 2015.

**Income Taxes**

The Company is included in the consolidated federal income tax return and various consolidated or combined state income tax returns filed by SunTrust Banks, Inc. In accordance with the Tax Allocation Agreement applicable to SunTrust Banks, Inc. and each of its subsidiaries, the Company's income taxes are calculated as if the Company filed separate income tax returns with appropriate adjustments to properly reflect the impact of a consolidated filing. Payments to tax authorities are made by SunTrust Banks, Inc.

## 3. Accounting Policies Recently Adopted and Pending Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods beginning after December 15, 2017. The Company is continuing to evaluate the impact of the ASU.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The disclosure requirements of the standard were issued to improve transparency about the types of collateral pledged under repurchase agreements and is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. As the relevant requirements of this standard only impacts footnote disclosures, there is no impact to the Company's financial position.

In June 2014, the FASB issued ASU 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period shall be treated as a performance condition. Under existing guidance in Topic 718, a performance target that falls under the scope of this amendment should not be reflected in estimating the grant-date fair value of the award; but rather compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The ASU is effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the ASU; however, it is not expected to have a significant impact on the Company's financial position.

In August 2014, the FASB issued ASU 2014-15, "Preparation of Financial Statements – Going Concern." This standard provides guidance about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard will become effective for annual periods ending after December 15, 2017. The Company is continuing to evaluate the impact of this ASU.

## 4. Securities Segregated Under Federal and Other Regulations

At June 30, 2015, a U.S. Treasury security with a fair value of $30.0 million has been segregated in a special reserve account for the exclusive benefit of customers of the Company under SEC Rule 15c3-3.

## 5. Securities Purchased Under Agreements to Resell, Securities Borrowed, and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase are collateralized primarily by U.S. government or agency securities. Securities borrowed are collateralized primarily by corporate securities. These securities purchased under agreements to resell, securities borrowed, and securities sold under agreements to repurchase are carried at the amounts at which the securities will be subsequently resold or repurchased. Securities borrowed are primarily used to cover firm short positions. Securities purchased under agreements to resell are used to cover firm short positions or are subsequently sold under agreements to repurchase to earn a spread. Securities sold under agreements to repurchase are primarily used to fund firm trading inventory. The Company takes possession of all securities purchased under agreements to resell and securities borrowed and performs appropriate margin evaluation on the acquisition date based on market volatility, as necessary. On the acquisition date of these theses securities, the Company and the related counterparty agree on the amount of collateral required to secure the principal amount loaned under these arrangements. The Company monitors collateral values daily and calls for additional collateral to be provided as warranted under the aforementioned agreement. At June 30, 2015, the Company had accepted collateral with a fair value of $1.1 billion that the Company is permitted to sell or repledge and had repledged $243.6 million of that collateral. The Company has pledged $1.0 billion of certain securities owned to secure $1.0 billion of repurchase agreements as of June 30, 2015.

The following is a summary of repurchase agreements and the fair market value of related collateral pledged as of June 30, 2015 (in thousands):

| | Contract | Accrued Interest | Total Contract | Fair Market Value | Average Rate |
|---|---|---|---|---|---|
| **On demand maturities:** | | | | | |
| U.S. government and agency obligations | $ 35,651 | $ 13 | $ 35,664 | $ 37,271 | 0.65% |
| **Overnight maturities:** | | | | | |
| U.S. government and agency obligations | 897,354 | 33 | 897,387 | 915,954 | 0.32% |
| Corporate debt and other securities | 406,987 | 16 | 407,003 | 442,756 | 0.34% |
| **Term < 15 days:** | | | | | |
| U.S. government and agency obligations | 9,938 | 4 | 9,942 | 9,960 | 0.25% |
| | $ 1,349,930 | $ 66 | $ 1,349,996 | $ 1,405,941 | |

Securities borrowed or purchased under agreements to resell and securities sold under agreements to repurchase are governed by a master repurchase agreement. Under the terms of the master repurchase agreement, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and netted. These amounts are limited to the contract asset/liability balance, and accordingly, do not include excess collateral received/pledged. None of the Company's repurchase, reverse repurchase, or securities borrowing transactions met the right of setoff criteria at June 30, 2015.

The following table presents the Company's eligible securities borrowed or purchased under agreements to resell and securities sold under agreements to repurchase as of June 30, 2015 (in thousands):

| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts Presented in the Statement of Financial Condition | Gross Amounts Not Offset in the Statement of Financial Condition | Reportable Collateral | Aggregate Collateral Deficits by Counterparty |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Securities purchased under agreements to resell and securities borrowed | $ 1,106,645 | $ - | $ 1,106,645 | $ 1,106,645 | $ 1,095,539 | $ 11,106 |
| **Total Assets** | $ 1,106,645 | $ - | $ 1,106,645 | $ 1,106,645 | $ 1,095,539 | $ 11,106 |
| **Liabilities** | | | | | | |
| Securities sold under agreements to repurchase | $ 1,349,930 | $ - | $ 1,349,930 | $ 1,349,930 | $ 1,349,927 | $ 3 |
| **Total Liabilities** | $ 1,349,930 | $ - | $ 1,349,930 | $ 1,349,930 | $ 1,349,927 | $ 3 |

## 6. Fair Value of Financial Instruments

The Company’s recurring fair value measurements are based on a requirement to carry certain assets and liabilities at fair value. The carrying value of financial instruments presented on the balance sheet that are not measured at fair value approximates fair value. Assets and liabilities that are required to be carried at fair value on a recurring basis include securities owned, securities segregated under Federal and other regulations, and securities sold but not yet purchased and derivatives, and are classified as level 1, 2, or 3 within the fair value hierarchy as follows:

Level 1 – Assets or liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date, such as publicly traded instruments or futures contracts.

Level 2 – Assets and liabilities valued based on observable market data for similar instruments.

Level 3 – Assets and liabilities for which significant valuation assumptions are not readily observable in the market. Instruments are valued based on the best available data, some of which is internally developed, and considers risk premiums that a market participant would require.

Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. The assumptions used to estimate the value of an instrument have varying degrees of impact to the overall fair value of the asset or liability. This process involves gathering multiple sources of information, including broker quotes, values provided by pricing services, trading activity in other similar securities, market indices, and pricing matrices, along with employing various modeling techniques such as discounted cash flow analyses, in arriving at the best estimate of fair value. Any model used to produce material financial reporting information is required to have a satisfactory independent review performed on an annual basis, or more frequently, when significant modifications to the functionality of the model are made. This review is performed by an internal group that separately reports to the Corporate Risk Function of the Parent.

The Company has formal processes and controls in place to ensure the appropriateness of all fair value estimates. For fair values obtained from a third party, there is an internal independent price validation function within the Finance organization that provides oversight for fair value estimates. For level 2 instruments and certain level 3 instruments, the validation generally involves evaluating pricing received from two or more other third party pricing sources that are widely used by market participants. The Company reviews pricing validation information from both a qualitative and quantitative perspective and determines whether pricing differences exceed acceptable thresholds. If the pricing differences exceed acceptable thresholds, then the Company reviews differences in valuation approaches used at each pricing service, which may include contacting that pricing service to gain further information on the valuation of a particular security or class of securities, to determine the ultimate resolution of the pricing variance, which could include an adjustment to the price used for financial reporting purposes. The Company classifies instruments as level 2 in the fair value hierarchy when it is able to determine that external pricing sources are using similar instruments trading in the markets as the basis for estimating fair value. One way the Company determines this is by the number of pricing services that will provide a quote on the instrument along with the range of values provided by those pricing services. A wide range of quoted values may indicate that significant adjustments to the trades in the market are being made by the pricing services. The Company maintains a cross-functional approach when the fair value estimates for level 3 trading assets and liabilities are internally developed, since the selection of unobservable inputs is subjective. This cross-functional approach includes input on assumptions not only from the related line of business, but also from risk management and finance. A consensus of the estimate of the instrument's fair value is reached after evaluating all available information pertaining to fair value. Inputs, assumptions and overall conclusions on internally priced level 3 valuations are formally documented on a quarterly basis.

The classification of an instrument as level 3 involves judgment and is based on a variety of subjective factors. These factors are used in assessing whether a market is inactive, resulting in the application of significant unobservable assumptions in the valuation of a financial instrument. A market is considered inactive if significant decreases in the volume and level of activity for the asset or liability have been observed. In determining whether a market is inactive, the Company evaluates such factors as the number of recent transactions in either the primary or secondary markets, whether price quotations are current, the nature of the market participants, the variability of price quotations, the significance of bid/ask spreads, declines in (or the absence of) new issuances, and the availability of public information. Inactive markets necessitate the use of additional judgment when valuing financial instruments, such as pricing matrices, cash flow modeling, and the selection of an appropriate discount rate. The assumptions used to estimate the value of an instrument where the market was inactive are based on the Company’s assessment of the assumptions a market participant would use to value the instrument in an orderly transaction and includes consideration of illiquidity in the current market environment.

The Company’s policy for recording transfers into and out of the fair value hierarchy levels is that the transfers are assumed to occur at the end of the period in which the transfers took place. For the six months ended June 30, 2015 there were no transfers between levels.

The following table presents securities segregated under federal and other regulations, securities owned, and securities sold but not yet purchased and derivatives measured at fair value on a recurring basis:

| | Fair Value Measurement at June 30, 2015 Using | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Assets / Liabilities | Netting Adjustments[1] | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Securities segregated under federal and other regulations:** | | | | | |
| U.S. government and agency obligations | $ 30,040 | $ - | $ 30,040 | $ - | $ - |
| **Securities owned and derivatives:** | | | | | |
| U.S. government and agency obligations | $ 1,042,472 | $ - | $ 16,138 | $ 1,026,334 | $ - |
| State and municipal obligations | 32,158 | - | - | 32,158 | - |
| Corporate debt, derivatives and other securities | 577,333 | - | 118 | 577,215 | - |
| Commercial paper | 165,096 | - | - | 165,096 | - |
| Total securities owned and derivatives | $ 1,817,059 | $ - | $ 16,256 | $ 1,800,803 | $ - |
| **Securities sold but not yet purchased and derivatives:** | | | | | |
| U.S. government and agency obligations | $ 463,815 | $ - | $ 462,580 | $ 1,235 | $ - |
| Corporate debt, derivatives and other securities | 293,905 | (6,186) | 9 | 300,082 | - |
| Total securities sold but not yet purchased and derivatives | $ 757,720 | $ (6,186) | $ 462,589 | $ 301,317 | $ - |

[1] Amounts represent offsetting cash collateral paid to the same derivative counterparties.

## ***U.S. government and agency obligations***

### *U.S Treasury Securities and Agency Obligations*

The Company classifies U.S. Treasury securities as level 1. Securities issued by federal agencies consist of debt obligations issued directly by Fannie Mae, Freddie Mac, FHLB, and FFCB in addition to debt obligations collateralized by loans that are guaranteed by the Small Business Administration (SBA) and are, therefore, backed by the full faith and credit of the U.S. government. These debt obligations are classified as level 2 in the fair value hierarchy. For SBA instruments, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has classified these instruments as level 2.

Securities issued by GSEs such as Fannie Mae and Freddie Mac are not explicitly guaranteed by the U.S. government; however, the GSEs carry an implied rating commensurate with that of U.S. government obligations and may be required to maintain such rating through its agency agreement. In certain instances, the U.S. Treasury owns the senior preferred stock of these enterprises and has made a commitment under that stock purchase agreement to provide these GSEs with funds to maintain a positive net worth.

Pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae each contain a guarantee by the issuing GSE or agency. For agency mortgage-backed securities, the Company estimated fair value based on pricing from observable trading activity for similar securities or obtained fair values from a third party pricing service; accordingly, the Company has classified these as level 2.

*To-Be-Announced (TBA) Securities*

Securities transactions that are scheduled to settle beyond the normal settlement date are considered forward contracts and, therefore, are not reflected in trading assets or liabilities. The Company enters into various off-balance sheet financial instruments of this nature involving agency mortgage-backed, to-be-announced (TBA) securities. These instruments are used to meet the needs of customers and manage market risks and are subject to varying degrees of market and credit risk. The net unrealized gains and losses on these transactions are reflected in level 2 in securities owned and securities sold but not yet purchased and derivatives and in current period earnings. At June 30, 2015, the Company had net TBA commitments to sell of $222.5 million, resulting in a net unrealized loss of $0.7 million.

***State and municipal obligations***

The Company’s investments in U.S. state and municipal obligations include obligations of county and municipal authorities and agency bonds, which are general obligations of the municipality or are supported by a specified revenue source and are predominantly highly rated. Holdings are geographically dispersed with no significant concentrations in any one state or municipality. These obligations are classified as level 2 in the fair value hierarchy.

***Corporate debt and other securities***

The Company’s other securities include equity securities for which pricing is readily available and are therefore classified as level 1. Corporate debt securities are predominantly debt obligations of domestic corporations and are classified as level 2. The company utilizes an independent pricing service to obtain fair values for estimating the fair value of corporate bonds.

***Commercial paper***

The Company trades third party commercial paper (CP) that is generally short-term in nature (less than 30 days) and highly rated. The Company estimates the fair value of the CP based on observable pricing from executed trades of similar instruments and it is, therefore, classified as level 2 in the fair value hierarchy.

***Derivatives***

As part of its trading businesses, the Company enters into futures, swaps, forward commitments to purchase and sell securities, along with securities purchased and sold on a when-issued basis (when-issued securities). The Company accounts for these contracts as derivatives and, accordingly, recognizes these contracts at fair value.

The Company is a party to derivative securities in the normal course of business to meet the financing needs of customers and manage market risks. These instruments and commitments involve, to varying degrees, elements of credit and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract. Market risk is the possibility that a change in interest rates, the underlying assets, indices or a combination of these factors will cause an unfavorable change in the value of a financial instrument. The Company controls the credit risk arising from these instruments and commitments through its credit approval process and through the use of risk control limits and monitoring procedures. It evaluates each counterparty’s creditworthiness on a case-by-case basis. If collateral is deemed necessary to reduce credit risk, the amount and nature of the collateral obtained is based on management’s credit evaluation of the other party.

The notional amounts of derivative financial instruments generally exceed the probable loss that could arise from counterparty default or market-related risks. The fair value of derivative financial instruments represents principally the estimated unrealized gain (asset) or loss (liability) and is recorded in securities owned or securities sold but not yet purchased and derivatives in the statement of financial condition. The market risk associated with trading securities, including derivatives, is managed by imposing limits as to the type, amounts, and degree of risk that traders may undertake. These limits are approved by senior management, and the risk positions of traders are reviewed on a daily basis to monitor compliance with the limits.

*Credit Default Swap Indices (CDX)*

The Company's derivative instruments classified as level 2 represent credit default swap index (CDX) contracts as they are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. The Company uses these credit derivatives to manage exposure to credit risk related to its customer accommodation and market-making activity. This includes protection purchased to offset securities owned. At June 30, 2015, the net notional amount of Credit Default Swap Index (CDX) contracts was $260.0 million, resulting in a net unrealized loss of $6.6 million as of June 30, 2015, which is recorded in securities sold but not yet purchased and derivatives in the statement of financial condition.

*Futures Contracts*

The Company's derivative instruments classified as level 1 represent exchange-traded futures contracts for which pricing is readily available. There were futures contracts outstanding of $230.1 million notional, used to economically hedge agency mortgage-backed securities, resulting in a net unrealized gain of $6 thousand as of June 30, 2015.

## 7. Premises and Equipment

Premises and equipment consisted of the following (in thousands):

| | **Useful Life** | **As of June 30, 2015** |
|---|---|---|
| Leasehold improvements | 1-30 years | $ 24,841 |
| Furniture and equipment | 1-20 years | 56,709 |
| Construction-in-process | | 5,238 |
| | | 86,788 |
| Less: Accumulated depreciation | | (65,274) |
| Total premises and equipment | | $ 21,514 |

The Company leases certain office facilities and equipment under noncancelable leases that expire through 2025, some of which have stated rate increases. In addition, the Company has various obligations, mostly monthly commitments of less than one year, under other equipment leases. Minimum rental commitments on noncancelable leases for each of the following years ending June 30 are as follows (in thousands):

| | | |
|---|---|---|
| 2016 | $ | 6,425 |
| 2017 | | 7,406 |
| 2018 | | 7,787 |
| 2019 | | 8,099 |
| 2020 | | 8,276 |
| Thereafter | | 27,842 |
| Total minimum lease payments | $ | 65,835 |

## 8. Securities Sold But Not Yet Purchased and Derivatives

Sales of securities not yet purchased represent an obligation of the Company to deliver specified securities at a predetermined date and price. The Company will be obligated to acquire the required securities at prevailing market prices in the future to satisfy this obligation. Securities sold but not yet purchased and derivatives consisted of the following at quoted market prices at June 30, 2015 (in thousands):

| | | |
|---|---|---|
| U.S. government and agency obligations | $ | 463,815 |
| Corporate debt and other securities | | 293,477 |
| Derivatives | | 6,614 |
| Cash collateral offset against derivative positions | | (6,186) |
| | $ | 757,720 |

## 9. Employee Benefits

The Company participates in the pension and other employee benefit plans of the Parent for the benefit of substantially all employees of the Company, which includes participation in the stock based awards of the Parent through the SunTrust Banks, Inc. 2009 Stock Plan (as amended and restated effective January 1, 2014), under which the Parent’s Compensation Committee of the Board of Directors has the authority to grant stock options, restricted stock, and restricted stock units, of which some may have performance or other conditions, such as vesting tied to the Company's total shareholder return relative to a peer group, or vesting tied to the achievement of an absolute financial performance target. All incentive awards are subject to clawback provisions.

Consistent with the Parent's decision to discontinue the issuance of stock options in 2014, no stock options were granted during the six months ended June 30, 2015. In prior years, stock options were granted at an exercise price which was no less than the fair market value of a share of SunTrust Banks, Inc. common stock on the grant date and were either tax-qualified incentive stock options or nonqualified stock options. Stock options typically vested pro-rata over three years and generally had a maximum contractual life of 10 years. Upon option exercise, shares are issued to employees from the Parent's treasury stock.

Shares of restricted stock may be granted to employees and directors. Generally, grants to employees either cliff vest after three years or vest pro-rata annually over three years. Restricted stock grants may be subject to one or more criteria, including employment, performance, or other conditions as established by the Parent's Compensation Committee at the time of grant. An employee or director has the right to vote the shares of restricted stock after grant unless, and until, they are forfeited. Compensation cost for restricted stock is equal to the fair market value of the shares on the grant date of the award and is amortized to compensation expense over the vesting period. Dividends are paid on awarded but unvested restricted stock. The Parent allocates restricted stock expense to the Company.

**10. Transactions with Related Parties**

During the six months ended June 30, 2015, the Company engaged in various transactions with the Parent and its affiliates. The Parent provides certain management services and staff support functions for all of its subsidiaries. The total costs for these services are allocated among the Parent's subsidiaries in accordance with our expense sharing agreement. In addition, the Company pays various negotiated referral fees to the Parent and affiliates for sales involving customers of such entities.

Balances with respect to related parties at June 30, 2015, are (in thousands):

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 529 |
| Income tax receivable from Parent | | 685 |
| Securities owned | | 85,820 |
| Due to related parties | | 83 |
| Lines of credit payable to related parties | | 158,528 |

As of June 30, 2015, the Company has a $300 million unsecured demand revolving line of credit with the Parent. The line of credit has a stated interest rate at the Parent's monthly average cost of funds, which was 0.30% at June 30, 2015, with interest due monthly. At June 30, 2015, the outstanding balance on this unsecured line of credit was $125 million and is included in lines of credit payable to related parties in the statement of financial condition.

The Company also has a $400 million unsecured line of credit with SunTrust Bank (STB). The line of credit has a stated interest rate equal to one month LIBOR plus 1.25% per annum. The interest rate at June 30, 2015 was 1.437%. Any advances and accrued interest are due the following business day. At June 30, 2015, the outstanding balance was $33.5 million and is included in lines of credit payable to related parties in the statement of financial condition.

The Company also has a $5 million overdraft facility note with STB. The overdraft facility has a stated interest rate equal to STB's overnight cost of funds at the date of advance plus ten basis points. Advances and accrued interest under the facility are due the following business day. At June 30, 2015, there were no outstanding borrowings under the facility.

## 11. Commitments and Contingencies

*Litigation and Regulatory Matters*

In the ordinary course of business, the Company is party to numerous civil claims and lawsuits and subject to regulatory examinations, investigations, and requests for information. Some of these matters involve claims for substantial amounts. The Company's experience has shown that the damages alleged by plaintiffs or claimants are often overstated, based on novel or unsubstantiated legal theories, unsupported by facts, and/or bear no relation to the ultimate award that a court might grant. Additionally, the outcome of litigation and regulatory matters and the timing of ultimate resolution are inherently difficult to predict. Because of these factors, the Company typically cannot provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. However, on a case-by-case basis, reserves are established for those legal claims in which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved.

For a limited number of legal matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses. For other matters for which a loss is probable or reasonably possible, such an estimate is not possible. There are currently no legal matters for which a loss is both estimable and reasonably possible. This does not represent the Company's maximum loss exposure. Based on current knowledge, it is the opinion of management that liabilities arising from legal claims in excess of the amounts currently reserved, if any, will not have a material impact to the Company's financial condition, results of operations, or cash flows. However, in light of the significant uncertainties involved in these matters and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's financial condition, results of operations, or cash flows for any given reporting period.

The following is a description of certain litigation and regulatory matters:

**Lehman Brothers Holdings, Inc. Litigation**

Beginning in October 2008, the Company, along with other underwriters and individuals, were named as defendants in several individual and putative class action complaints filed in the U.S. District Court for the Southern District of New York and state and federal courts in Arkansas, California, Texas, and Washington. Plaintiffs alleged violations of Sections 11 and 12 of the Securities Act of 1933 and/or state law for allegedly false and misleading disclosures in connection with various debt and preferred stock offerings of Lehman Brothers Holdings, Inc. ("Lehman Brothers") and sought unspecified damages. All cases were transferred for coordination to the multi-district litigation captioned *In re Lehman Brothers Equity/Debt Securities Litigation* pending in the U.S. District Court for the Southern District of New York. Defendants filed a motion to dismiss all claims asserted in the class action. On July 27, 2011, the District Court granted in part and denied in part the motion to dismiss the claims against the Company and the other underwriter defendants in the class action. A settlement with the class plaintiffs was approved by the Court and the class settlement approval process was completed. A number of individual lawsuits and smaller putative class actions remained following the class settlement. The Company settled two such individual actions. The other individual lawsuits were dismissed. In two of such dismissed individual actions, the plantiffs were unable to appeal the dismissals of their claims until their claims against a third party were resolved. In one of these individual actions, the plantiffs have filed a notice of appeal to the Second Circuit Court of Appeals. In the other remaining action, it is unclear whether the plaintiffs will file a notice of appeal.

**Colonial BancGroup Securities Litigation**

Beginning in July 2009, the Company, certain other underwriters, the Colonial BancGroup, Inc. ("Colonial BancGroup") and certain officers and directors of Colonial BancGroup were named as defendants in a putative class action filed in the U.S. District Court for the Middle District of Alabama entitled *In re Colonial BancGroup, Inc. Securities Litigation*. The complaint was brought by purchasers of certain debt and equity securities of Colonial BancGroup and seeks unspecified damages. Plaintiffs allege violations of Sections 11 and 12 of the Securities Act of 1933 due to allegedly false and misleading disclosures in the relevant registration statement and prospectus relating to Colonial BancGroup's goodwill impairment, mortgage underwriting standards, and credit quality. On February 3, 2015, the parties settled this matter, which was preliminarily approved by the Court on March 13, 2015 and finally approved on June 19, 2015.

## 12. Guarantees to Third Parties

The Company uses a third-party clearing broker to clear and execute customers' equity securities transactions and to hold customer accounts. Under the agreement, the Company will indemnify the broker for amounts paid to purchase the security. The maximum potential liability could be equal to the aggregate trading volume of the customers' transactions during the settlement period; however, this amount cannot be estimated due to the volatility in daily trading volumes. The liability is minimized by the fact that, in the event of nonperformance by the customer, the underlying security would be transferred to the Company who would, in turn, immediately liquidate the position, limiting the loss exposure to the market fluctuation in the underlying price of the security. Additionally, the Company may seek recourse from the customer by reimbursing itself from any cash or securities in the defaulting customers' account. The Company believes that it is unlikely it will have to make material payments under this arrangement and has not recorded any contingent liability in the financial statements for this indemnification. For the year ended June 30, 2015, the Company experienced *de minimis* net losses as a result of the indemnity. The clearing agreement expires May 2020.

## 13. Net Capital Requirements

The Company is subject to SEC Rule 15c3-1, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by SEC Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of the minimum dollar net capital requirement or 2% of aggregate debit balances arising from customer transactions, as defined. At June 30, 2015, the Company had net capital, as defined, of $517.0 million, which was $515.9 million in excess of the required net capital.

Supplemental Information

SunTrust Robinson Humphrey, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

# Schedule I

## Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

Unaudited as of June 30, 2015
*(In thousands)*

| | | | |
|---|---|---|---|
| **Computation of net capital** | | | |
| Total shareholder's equity | | $ | 988,223 |
| Total capital and allowable subordinated borrowings | | | 988,223 |
| Deductions and/or charges: | | | |
| Nonallowable assets: | | | |
| Goodwill | 131,440 | | |
| Accrued interest and other income receivable | 56,949 | | |
| Deposits with clearing organizations and others | 18,519 | | |
| Net deferred tax assets | 24,559 | | |
| Furniture, equipment, and leasehold improvements, net of accumulated depreciation | 21,514 | | |
| Other assets, miscellaneous | 6,899 | | |
| Total nonallowable assets | 259,880 | | |
| Other deductions or charges | 25,096 | | 284,976 |
| Net capital before haircuts on securities positions | | | 703,247 |
| Haircuts on securities: | | | |
| Open contractual commitments | 379 | | |
| Corporate debt obligations | 151,672 | | |
| U.S. government and agency obligations | 33,272 | | |
| State and municipal obligations | 662 | | |
| Commercial paper and certificates of deposit | 290 | | |
| Stocks and warrants | 17 | | |
| Undue concentration | – | | 186,292 |
| **Net capital** | | $ | 516,955 |
| **Computation of alternative net capital requirement** | | | |
| 2% of aggregate debit items as shown in formula for reserve requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation or minimum net capital requirement (if greater) | | | 1,064 |
| **Excess net capital** | | $ | 515,891 |
| **Net capital in excess of 5% of aggregate debit items or 120% of the net capital requirement if greater** | | $ | 515,678 |

*There are no material differences between this computation and the Company's unaudited Form X-17A-5 as of June 30, 2015.*

SunTrust Robinson Humphrey, Inc.
(A Wholly Owned Subsidiary of SunTrust Banks, Inc.)

# Schedule II

## Computation of Determination of Reserve Requirements
## Under Rule 15c3-3 of the Securities and Exchange Commission

Unaudited as of June 30, 2015

| | | |
|---|---|---|
| Credit balances: | | |
| Customer-related fails to receive | $ | 7,778 |
| Market value of short securities and credits in all suspense accounts over 30 calendar days | | 1,323 |
| Total credit balances | $ | 9,101 |
| Debit balances: | | |
| Customer-related fails to deliver | | 9,322 |
| Gross debits | | 9,322 |
| Less 3% | | (280) |
| Total debit balances | $ | 9,042 |
| Reserve computation: | | |
| Excess of total credits over total debits required to be on deposit in the “Reserve Bank Account” | | 59 |
| Amount on deposit in the “Reserve Bank Account” at June 30, 2015 | $ | 30,040 |

*There are no material differences between this computation and the Company’s unaudited Form X-17A-5 as of June 30, 2015*