Liquidity Management in the New Era

Regulatory Update

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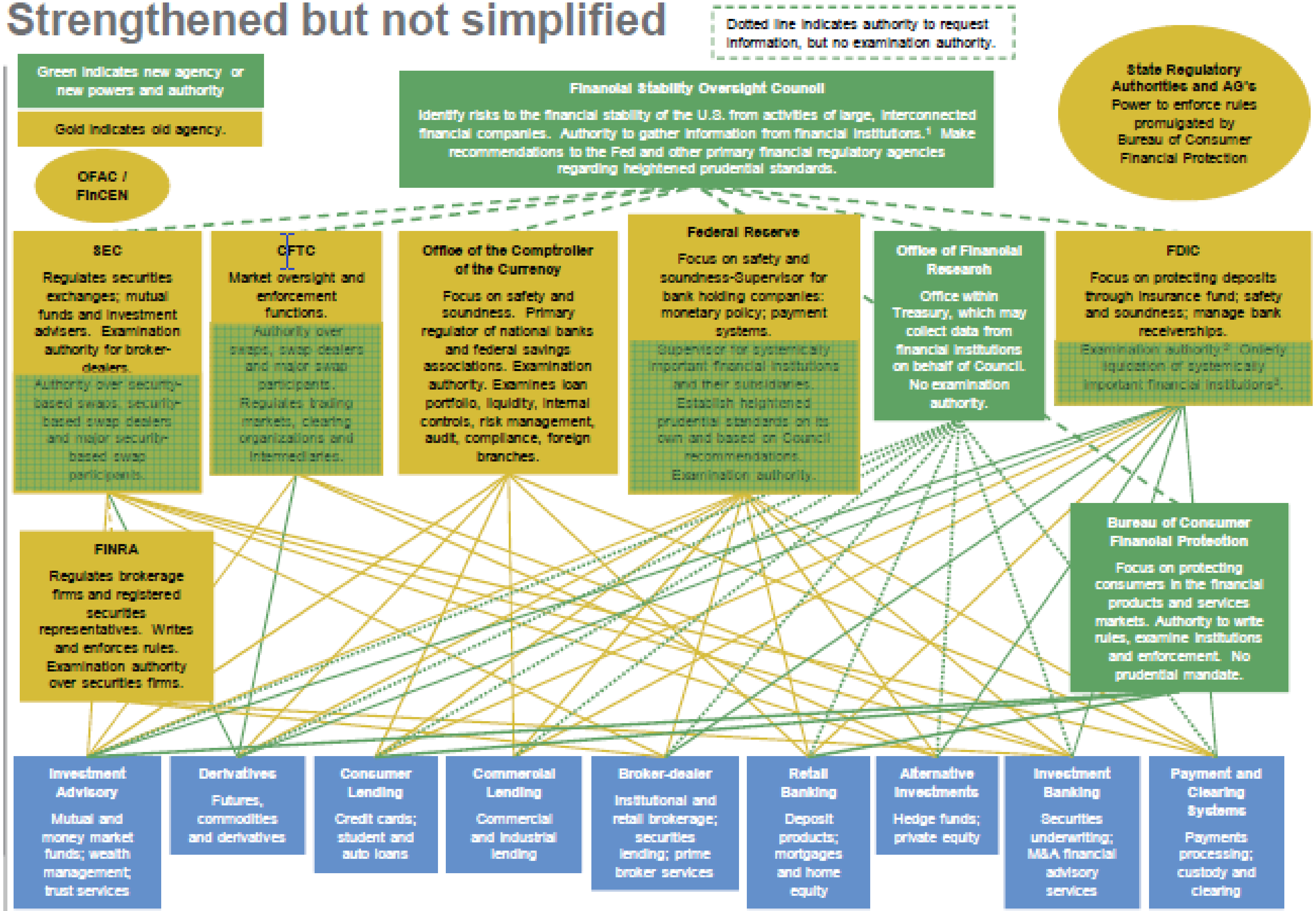
Regulatory Reform: “Strengthened but not Simplified”

Strengthened but not simplified



This chart assumes these activities are conducted in a systemically important bank holding company (BHC)

¹ The Council, through Office of Financial Research, may request reports from systemically important BHCs

² FDIC may conduct exams of systemically important BHCs for purposes of implementing its authority for orderly liquidations, but may not examine those in generally sound condition

³ The Dodd-Frank Act expanded the FDIC's authority when liquidating a financial institution to include the bank holding company, not just entities that house FDIC-insured deposits

Note: Green lines from SEC and CFTC represent enhanced authority over existing relationships

Regulatory Reform – A Sampling

Higher bank interest expense on deposits	Reduced Revenue Streams ▪ Volcker Rule ▪ Potential divestitures
Reduced Fee Income ▪ NSF/Overdrafts (Regulation E) ▪ Debit Interchange (Durbin Amendment)	Increased Balance Sheet Costs ▪ Basel III Capital Ratios ▪ Basel III Liquidity Coverage Ratio
Increased Fees ▪ Uncollateralized daylight overdrafts ▪ FDIC	Client communication costs
Development costs for new products	Employee training
Reduced value of deposits ▪ Reg Q repeal ▪ Basel III - Higher liquidity levels needed to support the commercial business	Increased cost of compliance & oversight ▪ Human, Systems, tracking and reporting
Increased emphasis on minimizing marginally profitable and unprofitable relationships	▪ Discontinuation of “Free Checking” ▪ Collateralized Deposits ▪ Syndicated Credit Facilities

Increased Bank Expenses → Increased Customer Expenses

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Key Regulatory Changes Impacting Liquidity Management

Banks: 2008 – 2012
Fed Funds Target lowered from 4.25% 1Q 2008 to 0-.25% 4Q 2008
Unlimited FDIC Insurance: late 2008 through December 2012
FDIC Coverage raised from $100K to 200K per depositor
Regulation Q Repealed
Money Funds: Implemented 2010
Max Weighted Average Maturity reduced from 90 to 60 days
30% of portfolio must mature within one week and 10% must mature overnight
Max of 2nd tier securities reduced from 5% to 3%
2nd tier issuer limit reduced from 1% to 1/2%
Max maturity of 2nd tier securities reduced from 397 to 45 days

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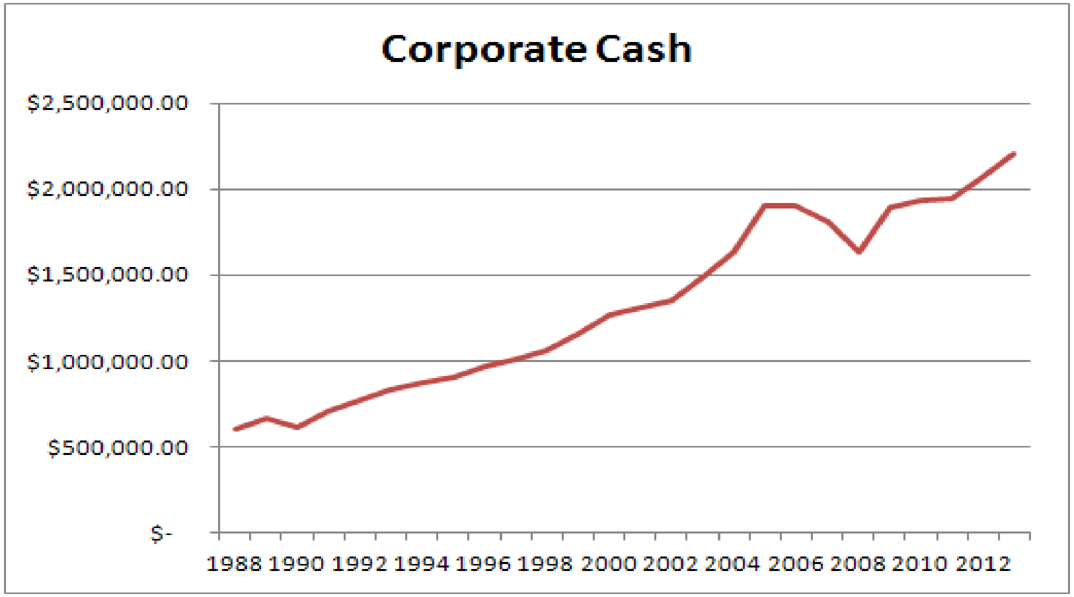
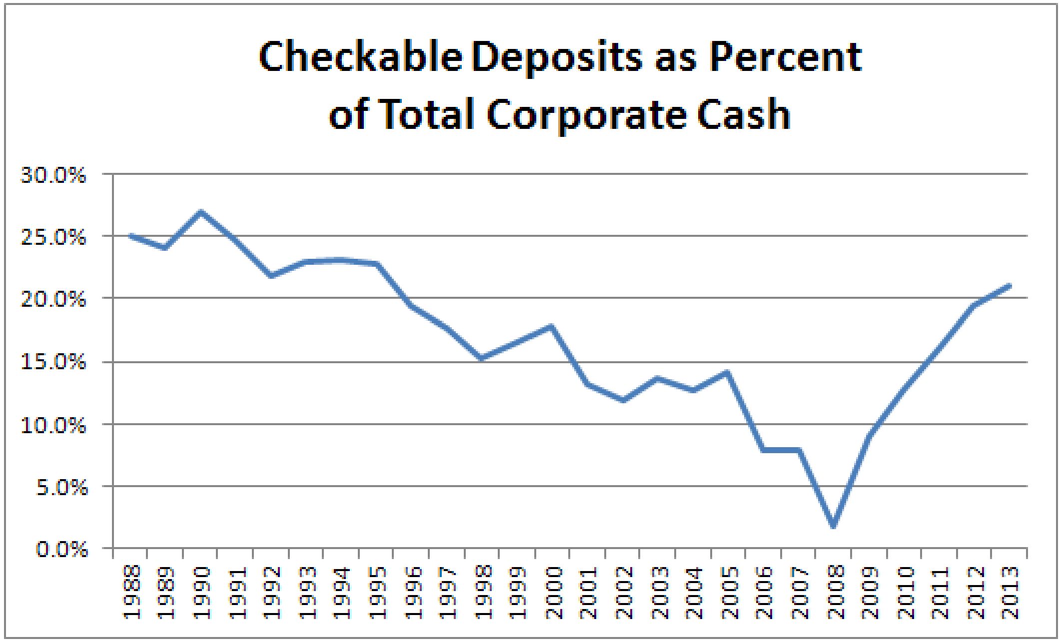
Corporate Cash Has Been Increasing

Source: Federal Reserve Bank





Trends In Corporate Cash

Grew from $500 Billion in 1988 to more than $2.2 Trillion at the end of 2013

Checkable deposits as a percent of Corporate Cash have increased steadily since 2008

- Relative Value of ECR
- Unlimited FDIC through 12/31/2012
- Declined from 25% in 1988 to 1.9% in 2008 , before growing to 20% in 2013

Source: Federal Reserve Bank

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Market Rates for Cash Investment Instruments
Alternative Cash Investment Options

Short-term Investment Instrument	Rate as of 7/13/2011*	Rates 11/26/2012	Rates 11/20/2013*	Rates 9/5/2014*	52-Week*	
Overnight Instruments					**Low**	**High**
Fed Funds	6 bps	16 bps	12 bps	11 bps	9 bps	18 bps
Repo	2 bps	29 bps	8 bps	11 bps	-1 bps	28 bps
SunTrust ECR (Analyzed Business Checking)	35 bps	25 bps	20 bps	20 bps	20 bps	25 bps
SunTrust ECR/Rate Pd (Analyzed Interest Checking)		25/5 bps	20/5 bps	15/5 bps	15/5 bp	20/5 bps
30-Day Instruments		**11/26/2012**	**11/20/2013**		**Low**	**High**
Treasuries	2 bps	15.5 bps	8 bps	1.5 bps	0 bps	35 bps
Commercial Paper	12 bps	14 bps	7 bps	N.Q.	3 bps	15 bps
Eurodollars	12 bps	12 bps	10 bps	10 bps	10 bps	19 bps
Libor	18.7 bps	20.9 bps	16.7 bps	15.6 bps	15.2 bp	20.5 bps
SunTrust Money Market Account Standard Rate	**25 bps**	15 bps	12 bps	10 bps	10 bps	15 bps
90-Day Instruments	**7/13/2011**	**11/26/2012**	**11/20/2013**		**Low**	**High**
Treasuries	3 bps	10 bps	8 bps	2.5 bps	1 bps	13 bps
Commercial Paper	15 bps	16 bps	12 bps	20 bps	8 bps	20 bps
Libor	24.9 bps	31.2 bps	23.8 bps	23.6 bps	22.3 bp	27.8 bps
Eurodollars	15 bps	20 bps	15 bps	15 bps	15 bps	25 bps
AAA-Rated Taxable Money Funds: 7-day Yield as of	**6/30/2011**	**10/30/2012**	**10/31/2013**	**8/31/2014**	**Low**	**High**
Crane Treasury Institutional MF Index	1 bps	1 bps	1 bps	1 bps	1 bps	1 bps
Crane AAA Prime Institutional MF Index	4 bps	9 bps	3 bps	2 bps	2 bps	10 bps
Local Government Investment Pools: Monthly Yield as of:	**June 2011**	**Oct 2012**	**Oct '13**	**Aug '14**	**Low**	**High**
Georgia Fund 1 LGIP (Monthly yield)	13 bps	18 bps	11 bps	14 bps	11 bps	16 bps
Florida Prime LGIP (Monthly yield)	23 bps	31bps	18 bps	16 bps	15 bps	22 bps

Market rates continue to remain extremely low

As of early September overnight, 30-day and 90-day rates remain extremely low, but in-line with those of 4th quarter 2013

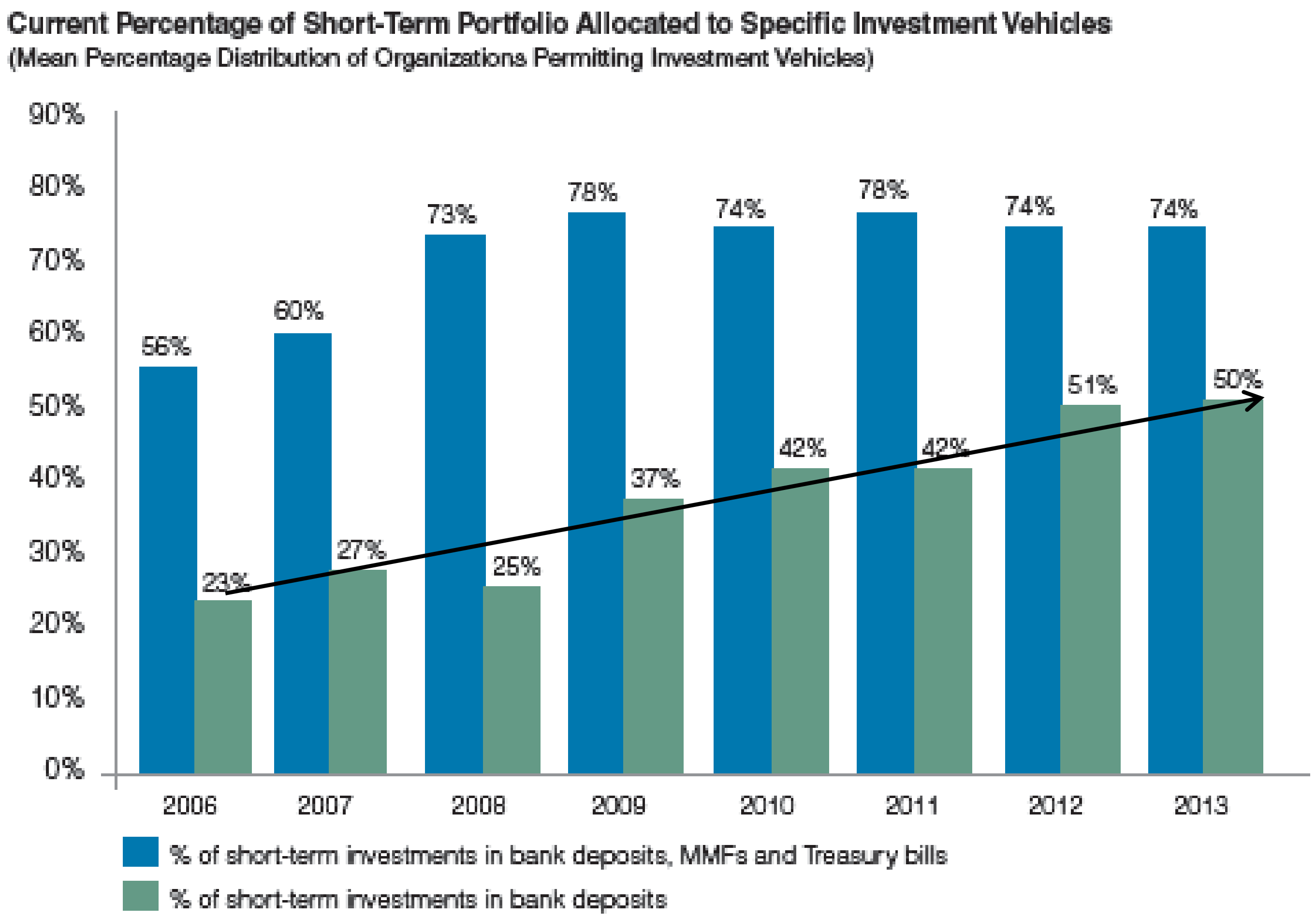
- One-month and three-month Libor are near their 52-week lows
- US Treasuries, 30-day CP, Eurodollars, and money market funds are all at or near their 52-week lows

At or Near 52 Week Low

SunTrust Sweep Yields As of August 2014	
Master Note	25/20 bps
Repo	1 bps
Federated Prime Fund	1 bps
Federated Treasury Fund	1 bps

- **Rates obtained from (1) WSJ Money Rates, (2) Crane Data (money funds) and (3) State-specific LGIPs**

Deposits Share of Corporate Cash Has Grown Significantly



- Cash investors have been increasing their allocation to bank deposits over the last six years, while simultaneously decreasing their allocation to money market mutual funds

Past, Present & Future of Short-Term Investing

Findings from July 2013 (2012) Association of Financial Professionals (AFP) Liquidity Survey

Key Findings Among Investors	Comments / Implications
▪ **50% (51%)of aggregate portfolio balances held in bank deposits** ▪ **77% (78%) of portfolio balances are held in bank deposits, money funds and US Treasuries/Agencies** • 10% (12.7%) of balances are allocated to prime money funds ▪ 6% (6.5%) to treasury money funds ▪ 8% (4.2%) to UST's ▪ 3% (3.6%) to US Gov't Agencies	▪ Investors have consolidated the majority of their liquidity into bank deposits ▪ They are no longer diversifying their portfolio across as many asset classes as has been the case in the past ▪ Money Funds have lost more than 50% of their allocation versus 2004 (16% vs. 36%), when Fed Funds were 1% at the bottom of the 1999 to 2006 rate cycle
▪ **65% (72%) of instruments had maturities of 30-days or less** ▪ Only 15% (11%) at 91+ days, and ▪ 87% (86%) of investors expected their average maturity to remain the same or shorten further going forward	▪ There is very little incentive to move out the yield curve, with investors unwilling to take the associated liquidity and/or interest rate risk
▪ Only 74% (78%) of organizations overall, and 78% (80%) of net investors have a written investment policy	▪ Companies are exposing themselves to risks that could be easily avoided and/or contained

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Proposed Regulatory Changes Impacting Liquidity Mgt

Basel III LCR

2a-7 Reform

Reg Q Repeal

Fed Policy

Basel III Liquidity Coverage Ratio

Per the Securities and Exchange Commission:

The LCR requires a banking organization's stock of unencumbered high-quality liquid assets (HQLAs) to be at least 100% of its total net cash outflows over a 30-day standardized supervisory liquidity stress scenario

Subject to Full LCR	Subject to Partial LCR	Not Subject to LCR
U.S. Bank Holding Companies with ≥ $250 billion in total consolidated assets	U.S. depository institution holding companies with ≥ $50 billion in total consolidated assets	U.S. bank holding companies (BHC) or Savings & Loan Holding Companies (SLHC) with < $50 billion in total consolidated assets
*Includes the top 7 US Banks ranked by assets as of 12/31/2013	*Includes the 8th through 32nd largest US. banks ranked by assets as of 12/31/2013	*Includes the remaining U.S. banks and bank holding companies
* Source: Federal Reserve Statistical Release as of December 31, 2013		

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Basel III Liquidity Coverage Ratio

Deposit Runoff Factors

Basel III Liquidity Coverage Ratio: Deposit Behavioral Issues

Stock of Highly Liquid Assets

Stable Deposits (3 -5% Runoff)

Less Stable Deposits (10% Runoff)

Retail/Consumer and Small Business

Wholesale Operational (25% Runoff)

Other Wholesale Non-Financial (40% Runoff)

Other Wholesale Financial (100% Runoff)

Wholesale

Under the LCR standard, each dollar of assumed runoff requires an offsetting dollar of liquid asset buffer. Runoff assumptions will therefore have a significant impact on deposit profitability.

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SEC Proposed 2a-7 Money Fund Reform

Alternative 1
Prime and municipal funds convert to “floating NAV”
Treasury and Government funds retain their $1.00 NAV
Alternative 2
Require prime and municipal funds to impose a liquidity fee if a fund’s weekly liquidity levels fall below a specified threshold (15%) and permit the funds to suspend redemptions for up to 30-days (ie, “gate” the fund”)
- Redemption fee of 2% with Board empowered to lower or waive the fee
Treasury and Government Funds would be exempt
Alternative 3
Combination of Alternatives 1 and 2 above

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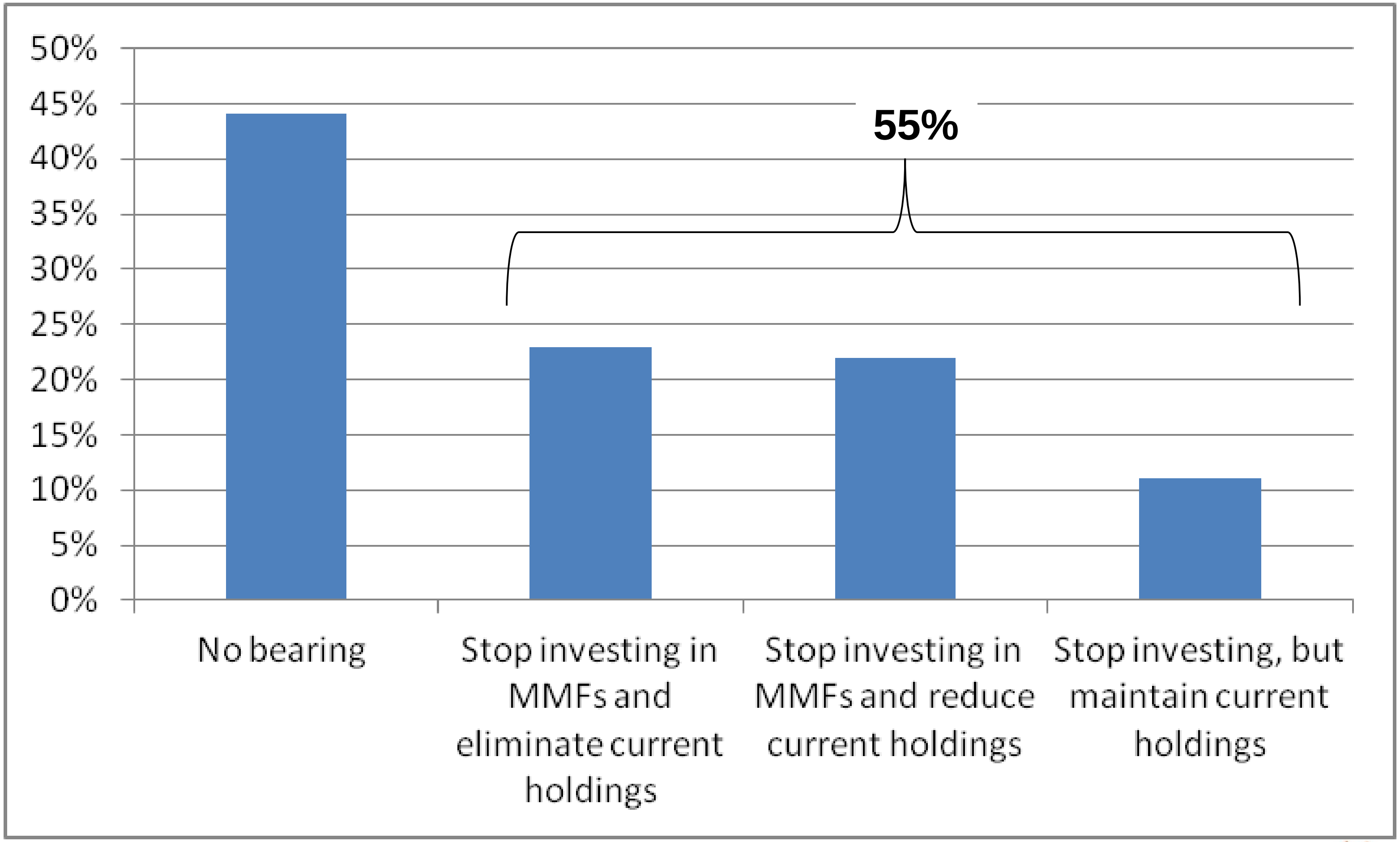
SEC Approved 2a-7 Money Fund Reform

Institutional Municipal and Institutional Prime Money Market Funds

	New SEC Rule	Current SEC Rule
NAV	Variable NAV	Stable $1.00 NAV
Liquidity Fees	Allowed to implement liquidity fees if weekly liquid assets falls below 30% Liquidity fees required if weekly liquid assets falls below 10%	Money market funds may either (1) suspend redemptions for no more than 7 days, or (2) permanently suspend redemptions and liquidate if the board determines that the fund is about to 'break the buck'
Redemption Gates	If the level of weekly liquid assets falls below 30%, the fund's Board can impose a redemption gate. The gate may be in place for no more than 10 consecutive business days or 10 business days in any 90 day period	
Enhanced Diversification	**Guarantees and Demand Features:** Municipal money market funds will be limited to having 15% of the value of securities held in their portfolio subject to guarantees or demand features from a single institution. Non-municipal money market funds will be limited to 10%	25% of the value of securities held in a money market fund's portfolio may be subject to guarantees or demand features from a single institution
	Aggregation of Affiliates: Money market funds will be required to treat certain entities that are affiliated with each other as single issuers when applying rule 2a-7's 5% issuer diversification limits	No requirement
	ABS – Sponsors Treated as Guarantors: Money market funds will be required to treat the sponsors of ABS as guarantors subject to rule 2a-7's 10% diversification limit applicable to guarantees and demand features	No requirement

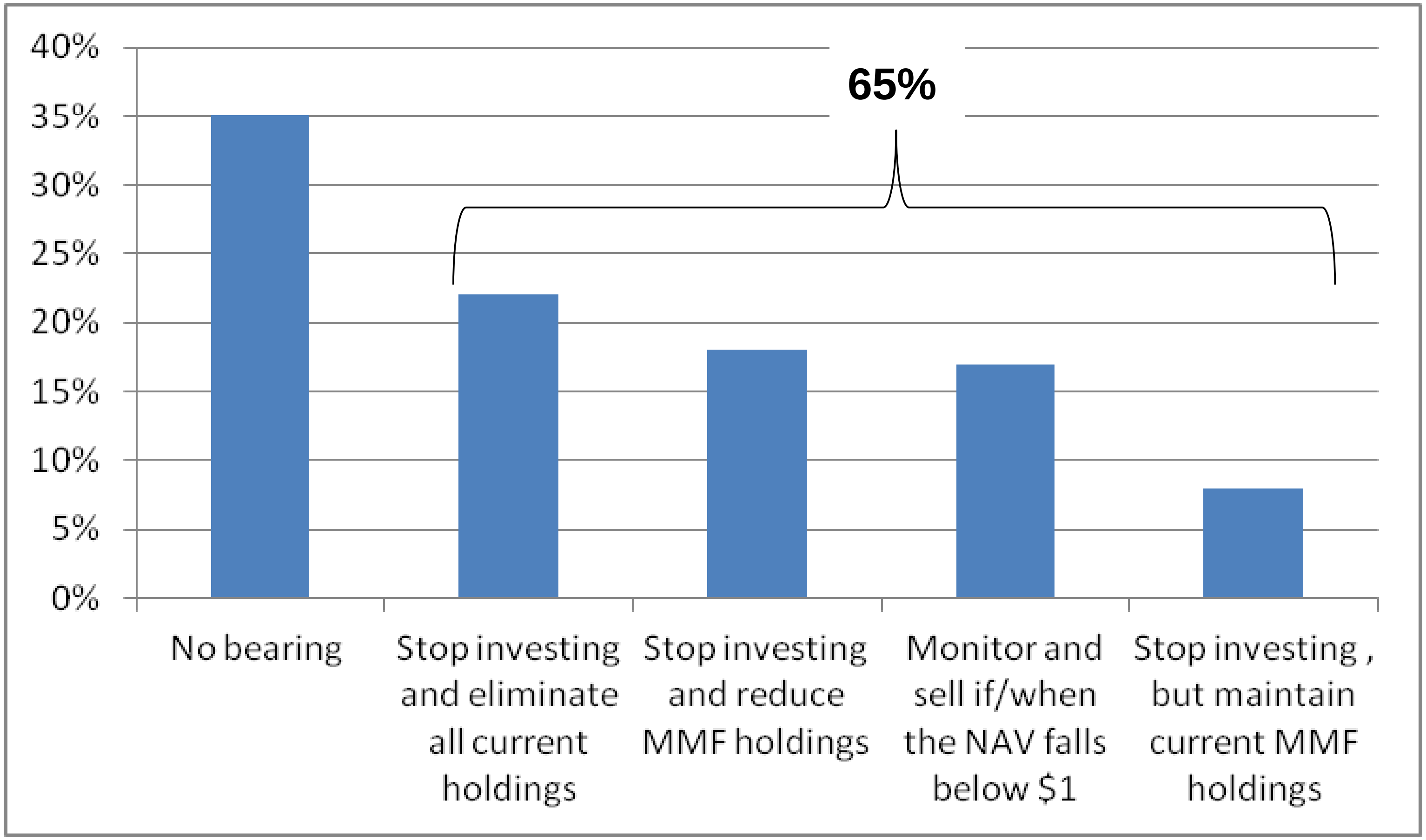
Money Fund Reform: 2013 AFP Liquidity Survey

Potential Impact of a Limit on or Charging of Fees for Full Redemption of MMF Holdings on Organization's Willingness to Invest in MMF's



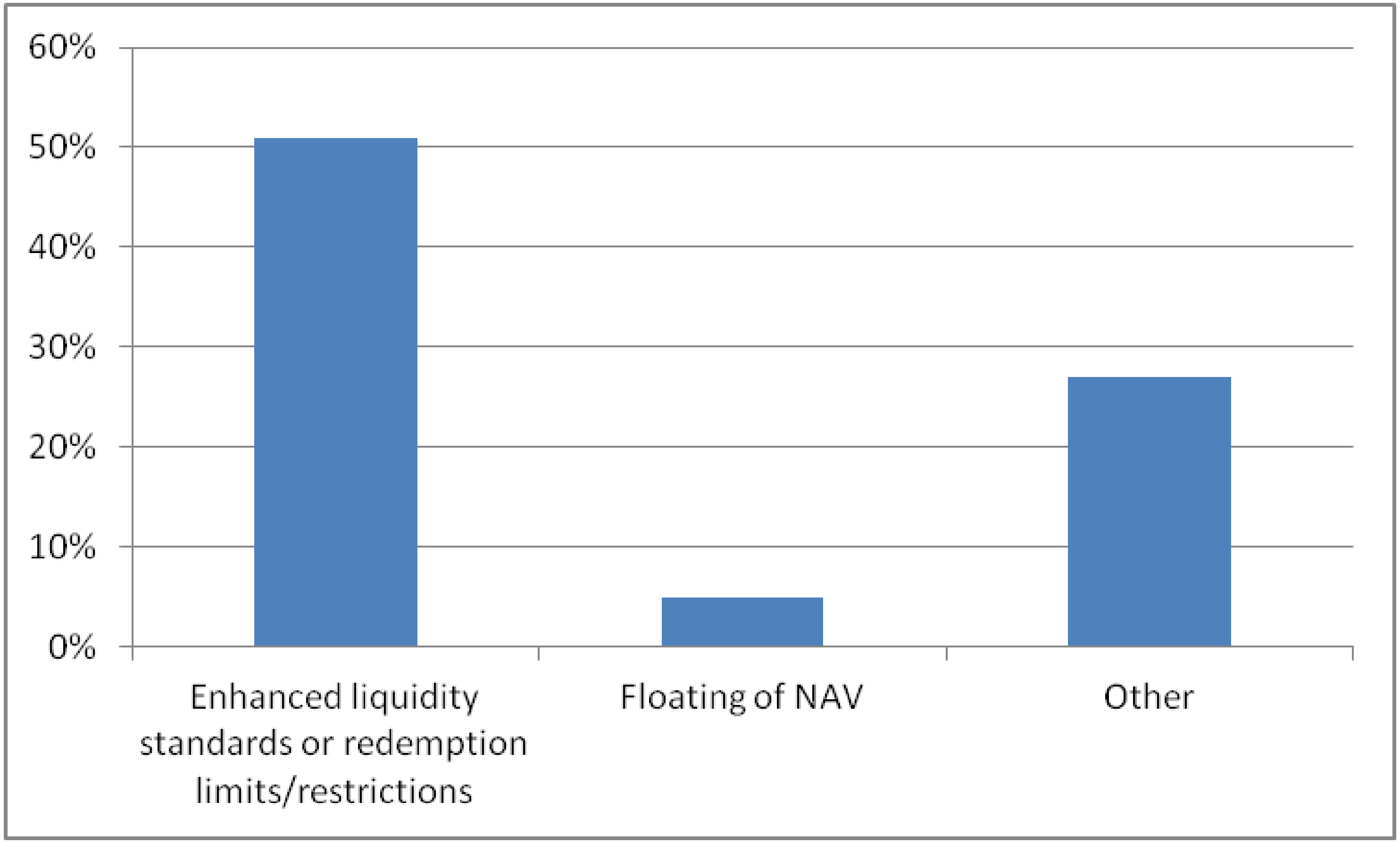
Money Fund Reform: 2013 AFP Liquidity Survey

Potential Impact of a Floating NAV on Organizations' Willingness to Invest in MMFs



Money Fund Reform: 2013 AFP Liquidity Survey

Reforms that Could Keep MMFs a Suitable Investment Vehicle for Corporate Cash



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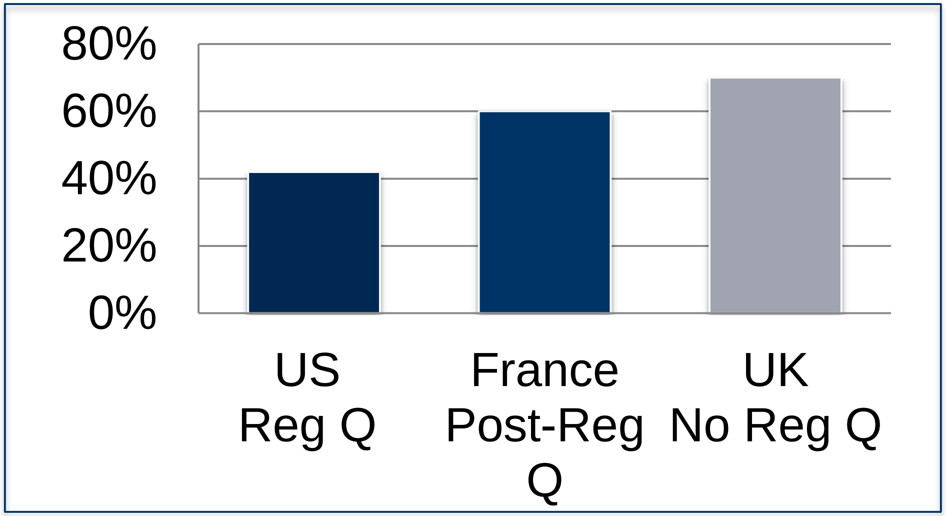
Impact of Reg Q Repeal

When Interest Rates Rise, The Repeal of Reg Q[1] plus Money Fund Reform Could Drive Corporate Cash Balances onto Bank Balance Sheets… Provided the Banks Want the Liquidity

In countries allowed to pay interest on checking, corporates maintain 60-70% of their liquidity in the banking system

Percent of Total Corporate Liquidity Held in Bank Deposits*



This is a positive outcome for U.S. banks only if loan demand and deposit growth are in synch

**Source: 2010 AFP Liquidity Survey and Treasury Strategies' Global Liquidity Research*

[1] *Repealed in 2011, Regulation Q was a 1930s Depression Era regulation that disallowed banks from paying interest on commercial checking accounts*

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Impact of Reg Q Repeal

A Likely Unintended Consequence of Reg Q Repeal

Reg Q

- For the typical treasury management bank, 60-70% of the revenue and 80-90% of profit comes from the spread on non-interest-bearing deposit

Reg Q Repealed

- Banks are eligible to pay interest on corporate checking deposits

Post-Reg Q Environment

- The Banking Industry will likely need to revise the pricing structure of the Treasury Management business in order to reflect the impact on revenue and profitability of the Repeal of Reg Q… and the associated reduction or elimination of non-interest-bearing deposits

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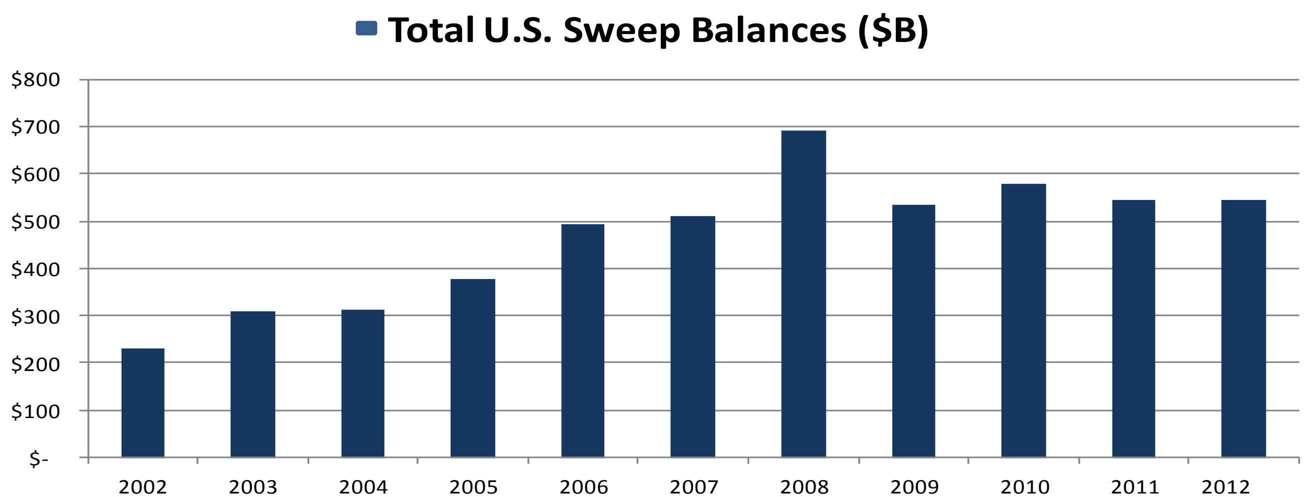
The Impact of Reg Q Repeal: The Future of Sweep

Post Reg Q Repeal, the Primary Purpose of Sweep Has Changed

Primary Purpose of Sweep	
Old Paradigm	**Post-Reg Q**
▪ Obtain yield on idle cash balances	▪ Diversify away from bank risk ▪ Obtain yield in excess of interest-bearing DDA
Predominant Sweep Vehicles	
▪ Money Funds ▪ Eurodollar Deposits ▪ Repo ▪ Bank Parent Commercial Paper	▪ Repo (eliminate credit risk) ▪ Money Funds (diversify away from bank risk) ▪ Bank Parent CP (yield enhancement) ▪ Alternative ‘off balance sheet’ products



Source: Treasury Strategies' proprietary research; Commercial Deposit/Sweep Study & Global Corporate Liquidity Research

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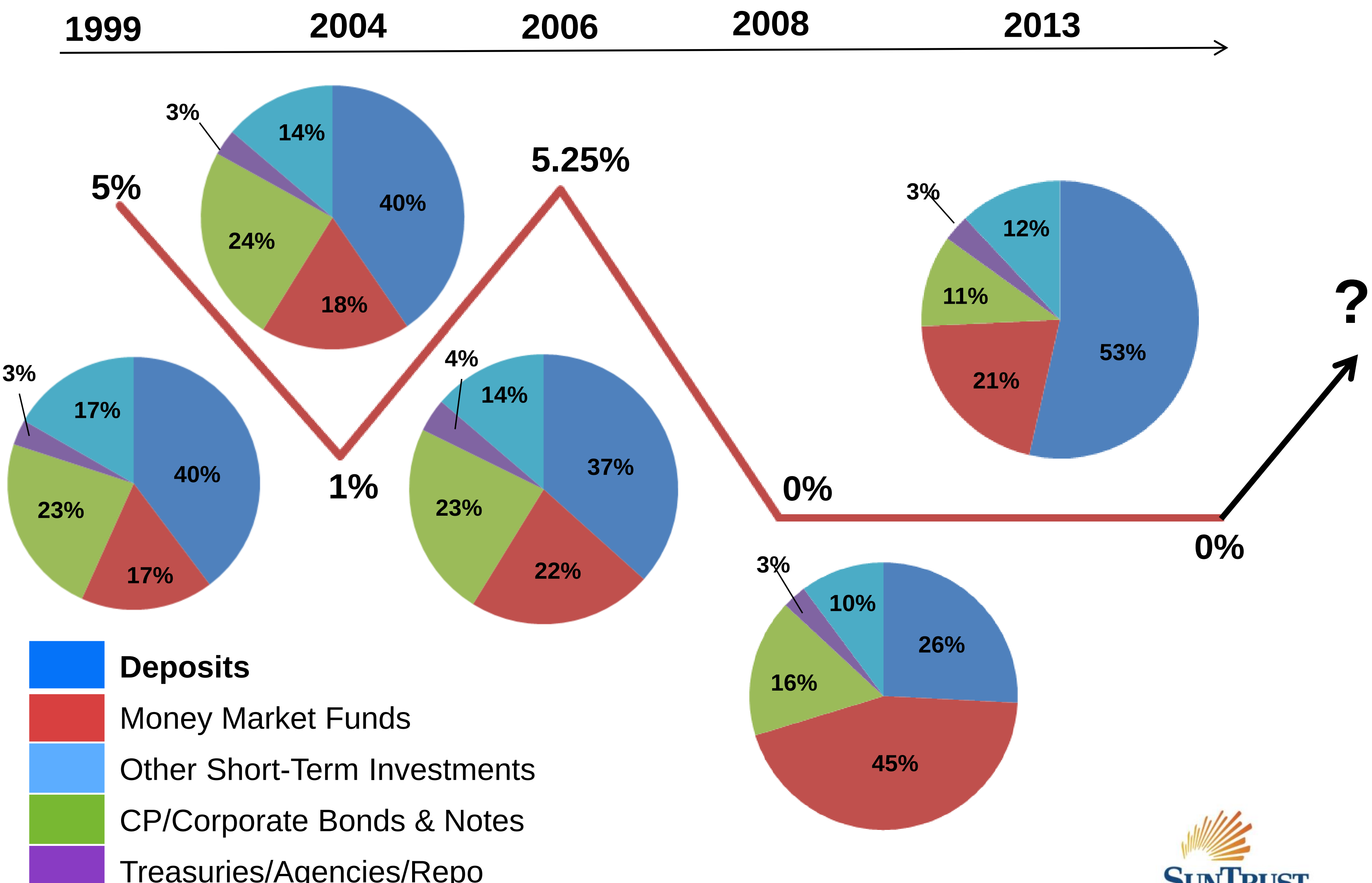
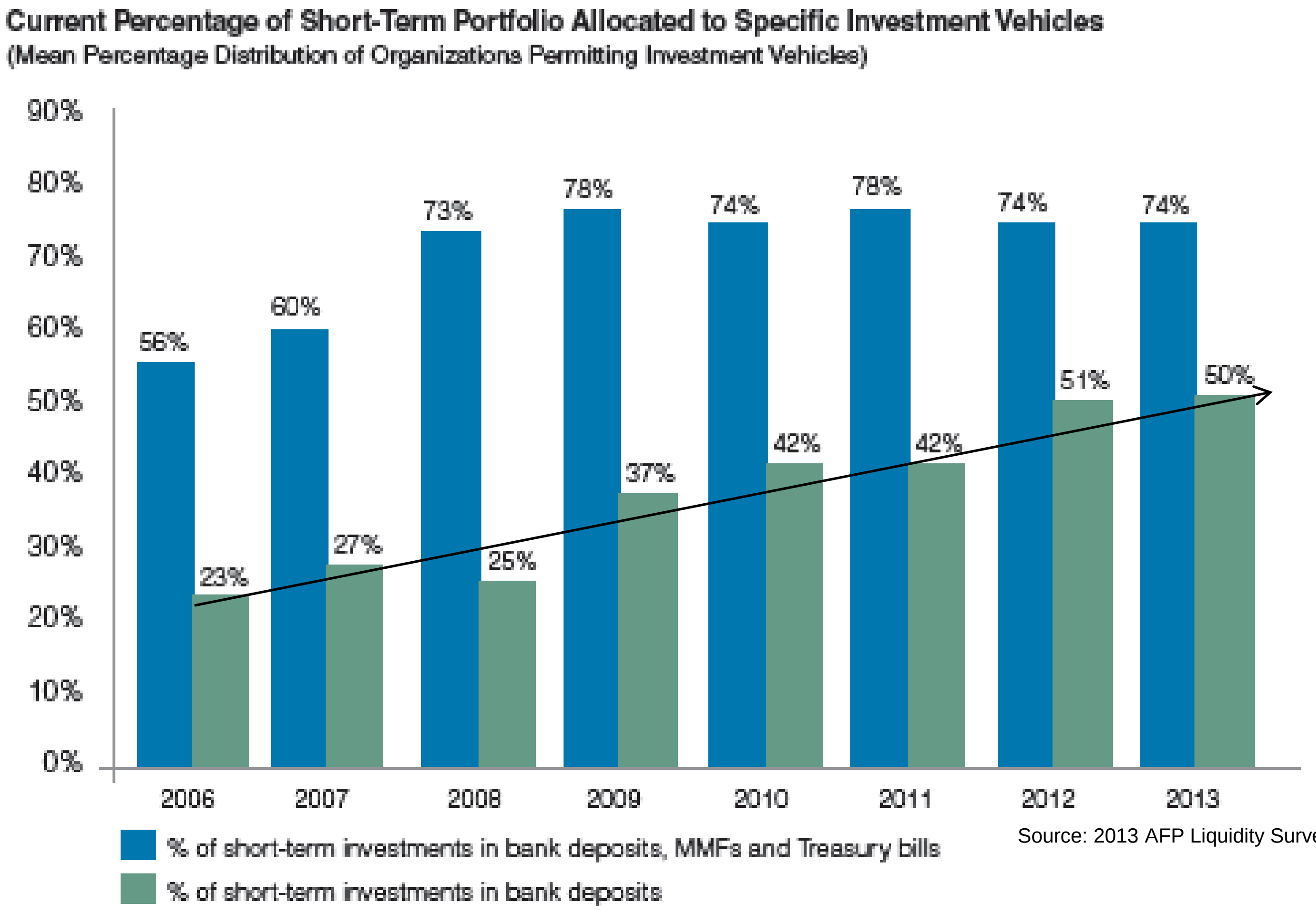
Year-End Fed Target Rate and Corporate Cash Investments



Will Deposit Investment Allocations Return to Pre-2008 Levels



Source: 2013 AFP Liquidity Survey

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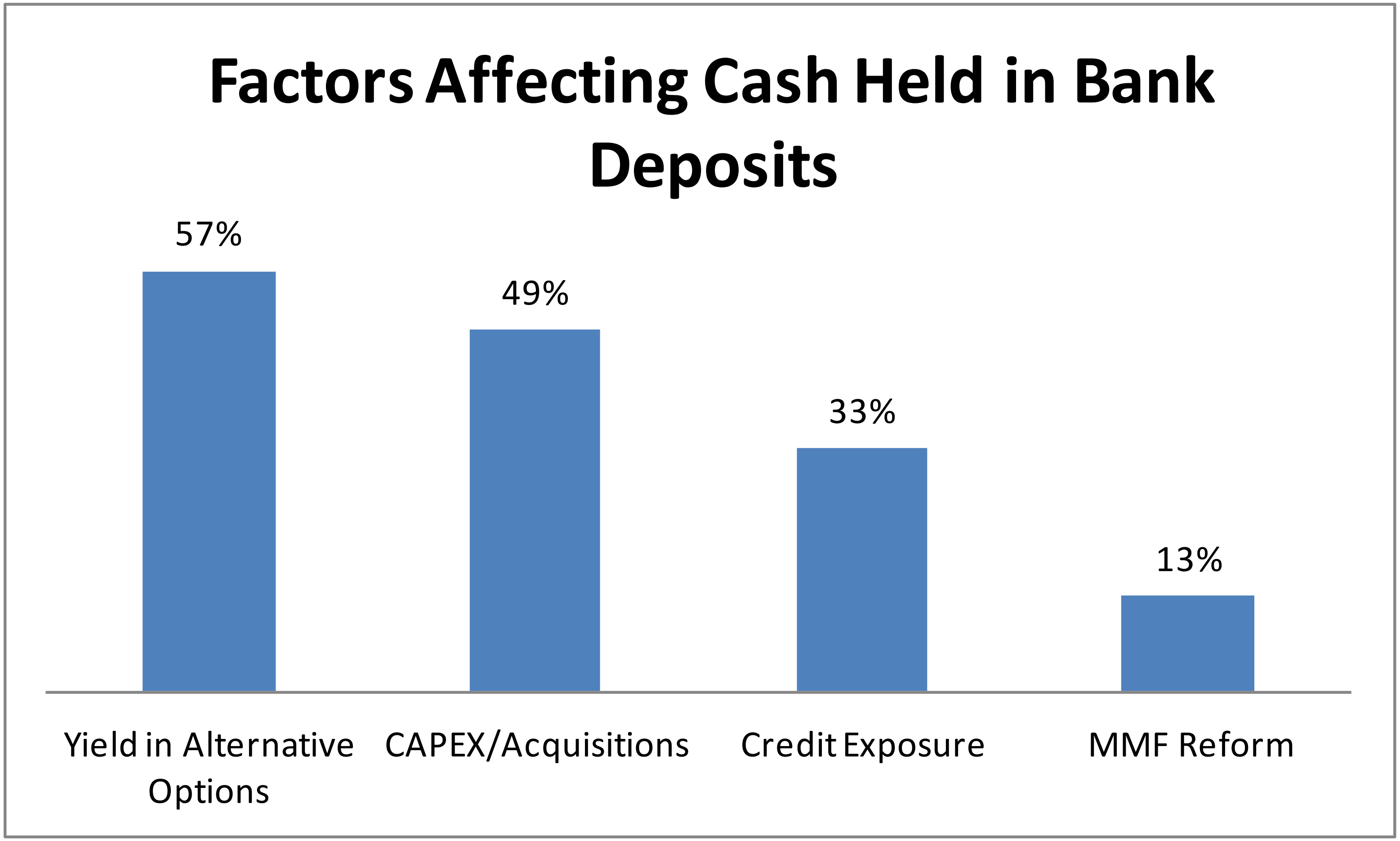

Source: 2013 AFP Liquidity Survey

Summary of Today's Discussion

Basel III LCR

2a-7 Reform

Reg Q Repeal

Fed Policy