

SUNTRUST BANKS INC
Form 10-Q
November 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

Commission file number 001-08918
SunTrust Banks, Inc.
(Exact name of registrant as specified in its charter)

Georgia 58-1575035
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(800) 786-8787
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

At October 31, 2018, 449,285,214 shares of the registrant's common stock, \$1.00 par value, were outstanding.

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GLOSSARY OF DEFINED TERMS

2017 Tax Act — Tax Cuts and Jobs Act of 2017.

ABS — Asset-backed securities.

ACH — Automated clearing house.

AFS — Available for sale.

AIP — Annual Incentive Plan.

ALM — Asset/Liability management.

ALLL — Allowance for loan and lease losses.

AOCI — Accumulated other comprehensive income.

ASC — Accounting Standards Codification.

ASU — Accounting Standards Update.

ATE — Additional termination event.

ATM — Automated teller machine.

Bank — SunTrust Bank.

Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.

BCBS — Basel Committee on Banking Supervision.

BHC — Bank holding company.

Board — the Company's Board of Directors.

bps — Basis points.

CCAR — Comprehensive Capital Analysis and Review.

CCB — Capital conservation buffer.

CD — Certificate of deposit (time deposit).

CDR — Conditional default rate.

CDS — Credit default swaps.

CEO — Chief Executive Officer.

CET1 — Common Equity Tier 1 Capital.

CFO — Chief Financial Officer.

CIB — Corporate and investment banking.

C&I — Commercial and industrial.

Class A shares — Visa Inc. Class A common stock.

Class B shares — Visa Inc. Class B common stock.

CME — Chicago Mercantile Exchange.

Company — SunTrust Banks, Inc.

CP — Commercial paper.

CPR — Conditional prepayment rate.

CRE — Commercial real estate.

CSA — Credit support annex.

DDA — Demand deposit account.

Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

DOJ — Department of Justice.

DTA — Deferred tax asset.

DTL — Deferred tax liability.

DVA — Debit valuation adjustment.

EPS — Earnings per share.

ER — Enterprise Risk.

ERISA — Employee Retirement Income Security Act of 1974.

Exchange Act — Securities Exchange Act of 1934.

Fannie Mae — Federal National Mortgage Association.

FASB — Financial Accounting Standards Board.

Freddie Mac — Federal Home Loan Mortgage Corporation.
FDIC — Federal Deposit Insurance Corporation.
Federal Reserve — Federal Reserve System.
Fed Funds — Federal funds.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.
FICO — Fair Isaac Corporation.

Fitch — Fitch Ratings Ltd.
FRB — Board of Governors of the Federal Reserve System.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
Ginnie Mae — Government National Mortgage Association.
GSE — Government-sponsored enterprise.
HAMP — Home Affordable Modification Program.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
LCH — LCH.Clearnet Limited.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFS — Loans held for sale.
LIBOR — London InterBank Offered Rate.
LOCOM — Lower of cost or market.
LTI — Long-term incentive.
LTV — Loan to value.
Mastercard — Mastercard International.
MBS — Mortgage-backed securities.
MD&A — Management’s Discussion and Analysis of Financial Condition and Results of Operation.
Moody’s — Moody’s Investors Service.
MRA — Master Repurchase Agreement.
MRM — Market Risk Management.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NCF — National Commerce Financial Corporation.
NOL — Net operating loss.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.
NPR — Notice of proposed rulemaking.
NSFR — Net stable funding ratio.
NYSE — New York Stock Exchange.
OCC — Office of the Comptroller of the Currency.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
PAC — Premium Assignment Corporation.
Parent Company — SunTrust Banks, Inc. (the parent Company of SunTrust Bank and other subsidiaries).

PD — Probability of default.

Pillar — substantially all of the assets of the operating subsidiaries of Pillar Financial, LLC.

PPNR — Pre-provision net revenue.

PWM — Private Wealth Management.

REIT — Real estate investment trust.

ROA — Return on average total assets.

ROE — Return on average common shareholders' equity.

ROTCE — Return on average tangible common shareholders' equity.

RSU — Restricted stock unit.

RWA — Risk-weighted assets.

S&P — Standard and Poor's.
SBA — Small Business Administration.
SEC — U.S. Securities and Exchange Commission.
STAS — SunTrust Advisory Services, Inc.
STCC — SunTrust Community Capital, LLC.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
TDR — Troubled debt restructuring.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the U.S.

U.S. Treasury — the U.S. Department of the Treasury.
UPB — Unpaid principal balance.
UTB — Unrecognized tax benefit.
VA — U.S. Department of Veterans Affairs.
VAR — Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa — the Visa, U.S.A. Inc. card association or its affiliates, collectively.
Visa Counterparty — a financial institution that purchased the Company's Visa Class B shares.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2018	2017	2018	2017
Interest Income				
Interest and fees on loans held for investment	\$1,549	\$1,382	\$4,424	\$4,009
Interest and fees on loans held for sale ²²		24	67	70
Interest on securities available for sale ¹		191	628	560
Trading account interest and other ¹	51	38	142	108
Total interest income	1,834	1,635	5,261	4,747
Interest Expense				
Interest on deposits	193	111	484	286
Interest on long-term debt	95	76	252	216
Interest on other borrowings	34	18	85	46
Total interest expense	322	205	821	548
Net interest income	1,512	1,430	4,440	4,199
Provision for credit losses	61	120	121	330
Net interest income after provision for credit losses	1,451	1,310	4,319	3,869
Noninterest Income				
Service charges on deposit accounts	144	154	433	453
Other charges and fees ²	89	89	264	270
Card fees	75	86	241	255
Investment banking income ²	150	169	453	501
Trading income	42	51	137	148
Trust and investment	80	79	230	229

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management income				
Retail investment services	74	69	219	208
Mortgage servicing related income	43	46	138	148
Mortgage production related income	40	61	118	170
Commercial real estate related income	24	17	66	61
Net securities gains—		—	1	1
Other noninterest income	21	25	108	76
Total noninterest income	782	846	2,408	2,520
Noninterest Expense				
Employee compensation	719	725	2,141	2,152
Employee benefits	76	81	310	302
Outside processing and software	234	203	667	612
Net occupancy expense	86	94	270	280
Marketing and customer development	45	45	127	129
Equipment expense	40	40	124	123
Regulatory assessments	39	47	118	143
Amortization	19	22	51	49
Operating losses/(gains)	18	(34)	40	17
Other noninterest expense	108	168	343	436
Total noninterest expense	1,384	1,391	4,191	4,243
Income before provision for income taxes	849	765	2,536	2,146
Provision for income taxes	95	225	412	606
Net income including income attributable to noncontrolling interest	754	540	2,124	1,540
Less: Net income attributable to	2	2	7	7

noncontrolling interest				
Net income	752	538	2,117	1,533
Less: Preferred stock dividends	26	26	81	65
Net income available to common shareholders	\$726	\$512	\$2,036	\$1,468
Net income per average common share:				
Diluted	\$1.56	\$1.06	\$4.34	\$3.00
Basic	1.58	1.07	4.38	3.04
Dividends declared per common share	0.50	0.40	1.30	0.92
Average common shares outstanding - diluted	464,164	483,640	469,006	489,176
Average common shares outstanding - basic	460,252	478,258	464,804	483,711

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets and began presenting income associated with certain of these equity securities in Trading account interest and other. For periods prior to January 1, 2018, this income was previously presented in Interest on securities available for sale and has been reclassified to Trading account interest and other for comparability.

² Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2018	2017	2018	2017
Net income	\$752	\$538	\$2,117	\$1,533
Components of other comprehensive (loss)/income:				
Change in net unrealized (losses)/gains on securities available for sale, net of tax of (\$55), \$24, (\$223), and \$57, respectively	(178)	40	(726)	97
Change in net unrealized losses on derivative instruments, net of tax of (\$6), (\$1), (\$55), and (\$7), respectively	(20)	(2)	(179)	(13)
Change in credit risk adjustment on long-term debt, net of tax of \$0, \$1, \$1, and \$1, respectively	—	1	3	1
Change related to employee benefit plans, net of tax of \$1, \$2, \$1, and \$3, respectively	3	3	2	1
Total other comprehensive (loss)/income, net of tax	(195)	42	(900)	86
Total comprehensive income	\$557	\$580	\$1,217	\$1,619

See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands, except per share data)	September 30, 2018	December 31, 2017
Assets	(Unaudited)	
Cash and due from banks	\$6,206	\$5,349
Federal funds sold and securities borrowed or purchased under agreements to resell	1,374	1,538
Interest-bearing deposits in other banks	25	25
Cash and cash equivalents	7,605	6,912
Trading assets and derivative instruments ¹	5,676	5,093
Securities available for sale ^{2, 3}	30,984	30,947
Loans held for sale (\$1,822 and \$1,577 at fair value at September 30, 2018 and December 31, 2017, respectively)	1,961	2,290
Loans held for investment ⁴ (\$168 and \$196 at fair value at September 30, 2018 and December 31, 2017, respectively)	147,215	143,181
Allowance for loan and lease losses	(1,623) (1,735
Net loans held for investment	145,592	141,446
Premises and equipment, net	1,555	1,734
Goodwill	6,331	6,331
Other intangible assets (Residential MSR's at fair value: \$2,062 and \$1,710 at September 30, 2018 and December 31, 2017, respectively)	2,140	1,791
Other assets ³ (\$92 and \$56 at fair value at September 30, 2018 and December 31, 2017, respectively)	9,432	9,418
Total assets	\$211,276	\$205,962
Liabilities		
Noninterest-bearing deposits	\$41,870	\$42,784
Interest-bearing deposits (\$384 and \$236 at fair value at September 30, 2018 and December 31, 2017, respectively)	118,508	117,996
Total deposits	160,378	160,780
Funds purchased	3,354	2,561
Securities sold under agreements to repurchase	1,730	1,503
Other short-term borrowings	2,856	717
Long-term debt ⁵ (\$235 and \$530 at fair value at September 30, 2018 and December 31, 2017, respectively)	14,289	9,785
Trading liabilities and derivative instruments	1,863	1,283
Other liabilities	2,667	4,179
Total liabilities	187,137	180,808
Shareholders' Equity		
Preferred stock, no par value	2,025	2,475
Common stock, \$1.00 par value	553	550
Additional paid-in capital	9,001	9,000
Retained earnings	19,111	17,540
Treasury stock, at cost, and other ⁶	(4,677) (3,591
Accumulated other comprehensive loss, net of tax	(1,874) (820
Total shareholders' equity	24,139	25,154
Total liabilities and shareholders' equity	\$211,276	\$205,962
Common shares outstanding ⁷	458,626	470,931
Common shares authorized	750,000	750,000

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Preferred shares outstanding	20	25
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	94,038	79,133
¹ Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	\$1,362	\$1,086
² Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral	164	223
³ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets. Reclassifications have been made to previously reported amounts for comparability.		
⁴ Includes loans held for investment of consolidated VIEs	159	179
⁵ Includes debt of consolidated VIEs	168	189
⁶ Includes noncontrolling interest	101	103
⁷ Includes restricted shares	7	9

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.

Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock and Other ¹	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2017	\$1,225	491	\$550	\$9,010	\$16,000	(\$2,346)	(\$821)	\$23,618
Net income	—	—	—	—	1,533	—	—	1,533
Other comprehensive income	—	—	—	—	—	—	86	86
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, \$0.92 per share	—	—	—	—	(443)	—	—	(443)
Preferred stock dividends ²	—	—	—	—	(65)	—	—	(65)
Issuance of preferred stock, Series G	750	—	—	(7)	—	—	—	743
Repurchase of common stock	—	(17)	—	—	—	(984)	—	(984)
Exercise of stock options and stock compensation expense	—	1	—	(14)	—	27	—	13
Restricted stock activity	—	1	—	(4)	(4)	31	—	23
Balance, September 30, 2017	\$1,975	476	\$550	\$8,985	\$17,021	(\$3,274)	(\$735)	\$24,522
Balance, January 1, 2018	\$2,475	471	\$550	\$9,000	\$17,540	(\$3,591)	(\$820)	\$25,154
Cumulative effect adjustment related to ASU adoptions ³	—	—	—	—	144	—	(154)	(10)
Net income	—	—	—	—	2,117	—	—	2,117
Other comprehensive loss	—	—	—	—	—	—	(900)	(900)
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, \$1.30 per share	—	—	—	—	(603)	—	—	(603)
Preferred stock dividends ²	—	—	—	—	(81)	—	—	(81)
Redemption of preferred stock, Series E	(450)	—	—	—	—	—	—	(450)
Repurchase of common stock	—	(17)	—	—	—	(1,160)	—	(1,160)
Exercise of stock options and stock compensation expense	—	1	—	—	—	36	—	36
Exercise of stock warrants	—	3	3	(3)	—	—	—	—
Restricted stock activity	—	1	—	4	(6)	40	—	38
Balance, September 30, 2018	\$2,025	459	\$553	\$9,001	\$19,111	(\$4,677)	(\$1,874)	\$24,139

¹ At September 30, 2018, includes (\$4,777) million for treasury stock, less than (\$1) million for the compensation element of restricted stock, and \$101 million for noncontrolling interest.

At September 30, 2017, includes (\$3,374) million for treasury stock, less than (\$1) million for the compensation element of restricted stock, and \$101 million for noncontrolling interest.

² For the nine months ended September 30, 2018, dividends were \$3,044 per share for both Series A and B Preferred Stock, \$1,469 per share for Series E Preferred Stock, \$4,219 per share for Series F Preferred Stock, \$3,788 per share for Series G Preferred Stock, and \$4,285 per share for Series H Preferred Stock.

For the nine months ended September 30, 2017, dividends were \$3,044 per share for both Series A and B Preferred Stock, \$4,406 per share for Series E Preferred Stock, \$4,219 per share for Series F Preferred Stock, and \$2,090 per share for Series G Preferred Stock.

³ Related to the Company's adoption of ASU 2014-09, ASU 2016-01, ASU 2017-12, and ASU 2018-02 on January 1, 2018. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2018	2017
(Dollars in millions) (Unaudited)		
Cash Flows from Operating Activities:		
Net income including income attributable to noncontrolling interest	\$2,124	\$1,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	535	540
Origination of servicing rights	(260)	(262)
Provisions for credit losses and foreclosed property	130	336
Stock-based compensation	118	121
Net securities gains	(1)	(1)
Net gains on sale of loans held for sale, loans, and other assets	(83)	(183)
Net decrease in loans held for sale	382	1,488
Net increase in trading assets and derivative instruments	(818)	(272)
Net increase in other assets ¹	(1,713)	(835)
Net increase/(decrease) in other liabilities	478	(267)
Net cash provided by operating activities	892	2,205
Cash Flows from Investing Activities:		
Proceeds from maturities, calls, and paydowns of securities available for sale	2,840	3,169
Proceeds from sales of securities available for sale	2,047	1,486
Purchases of securities available for sale	(5,534)	(5,344)
Net increase in loans, including purchases of loans	(4,566)	(1,839)
Proceeds from sales of loans and leases	199	520
Net cash paid for servicing rights	(73)	—
Payments for bank-owned life insurance policy premiums ¹	(201)	(127)
Proceeds from the settlement of bank-owned life insurance ¹	8	3
Capital expenditures	(170)	(233)
Proceeds from the sale of other real estate owned and other assets	148	183
Other investing activities ¹	1	9
Net cash used in investing activities	(5,301)	(2,173)
Cash Flows from Financing Activities:		
Net (decrease)/increase in total deposits	(402)	2,339
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	3,159	685
Proceeds from issuance of long-term debt	5,111	2,623
Repayments of long-term debt	(484)	(3,073)
Proceeds from the issuance of preferred stock	—	743
Repurchase of preferred stock	(450)	—
Repurchase of common stock	(1,160)	(984)
Common and preferred stock dividends paid	(664)	(485)
Taxes paid related to net share settlement of equity awards	(44)	(38)
Proceeds from exercise of stock options	36	13
Net cash provided by financing activities	5,102	1,823
Net increase in cash and cash equivalents	693	1,855
Cash and cash equivalents at beginning of period	6,912	6,423
Cash and cash equivalents at end of period	\$7,605	\$8,278

Supplemental Disclosures:

Loans transferred from loans held for sale to loans held for investment	\$23	\$16
Loans transferred from loans held for investment to loans held for sale	449	218
Loans transferred from loans held for investment and loans held for sale to other real estate owned	44	43
Non-cash impact of debt assumed by purchaser in lease sale	—	9

¹ Related to the Company's adoption of ASU 2016-15, certain prior period amounts have been retrospectively reclassified between operating activities and investing activities. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The unaudited Consolidated Financial Statements included within this report have been prepared in accordance with U.S. GAAP to present interim financial statement information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete, consolidated financial statements. However, in the opinion of management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes; actual results could vary from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. Interim Consolidated Financial Statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K.

Changes in Significant Accounting Policies

Pursuant to the Company's adoption of certain ASUs as of January 1, 2018, the following significant accounting policies have been added to or updated from those disclosed in the Company's 2017 Annual Report on Form 10-K:

Revenue Recognition

In the ordinary course of business, the Company recognizes revenue as services are rendered, or as transactions occur, and as collectability is reasonably assured. For the Company's revenue recognition accounting policies, see Note 2, "Revenue Recognition."

Trading Activities and Securities AFS

Trading assets and liabilities are measured at fair value with changes in fair value recognized within Noninterest income in the Company's Consolidated Statements of Income.

Securities AFS are used primarily as a store of liquidity and as part of the overall ALM process to optimize income and market performance over an entire interest rate cycle. Interest income on securities AFS is recognized on an accrual basis in Interest income in the Company's Consolidated Statements of Income. Premiums and discounts on securities AFS are amortized or accreted as an adjustment to yield over the life of the security. The Company estimates principal prepayments on securities AFS for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated. The estimates are informed by analyses of both historical prepayments and anticipated macroeconomic conditions, such as spot interest rates compared to implied forward interest rates. The estimate of prepayments for these securities impacts their lives and thereby the amortization or accretion of associated premiums and discounts. Securities AFS are measured at fair value with unrealized gains and losses, net of any tax effect, included in AOCI as a component of shareholders' equity. Realized gains and losses, including OTTI, are determined using the specific identification method and are recognized as a

component of Noninterest income in the Consolidated Statements of Income.

Securities AFS are reviewed for OTTI on a quarterly basis. In determining whether OTTI exists for securities AFS in an unrealized loss position, the Company assesses whether it has the intent to sell the security or assesses the likelihood of selling the security prior to the recovery of its amortized cost basis. If the Company intends to sell the security or it is more-likely-than-not that the Company will be required to sell the security prior to the recovery of its amortized cost basis, the security is written down to fair value, and the full amount of any impairment charge is recognized as a component of Noninterest income in the Consolidated Statements of Income. If the Company does not intend to sell the security and it is more-likely-than-not that the Company will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment of a security is recognized as a component of Noninterest income in the Consolidated Statements of Income, with the amount of any remaining

unrealized losses recorded in OCI.

For additional information on the Company's trading and securities AFS activities, see Note 4, "Trading Assets and Liabilities and Derivatives," and Note 5, "Securities Available for Sale."

Equity Securities

The Company records equity securities that are not classified as trading assets or liabilities within Other assets in its Consolidated Balance Sheets.

Investments in equity securities with readily determinable fair values (marketable) are measured at fair value, with changes in the fair value recognized as a component of Noninterest income in the Company's Consolidated Statements of Income.

Investments in equity investments that do not have readily determinable fair values (nonmarketable) are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer, also referred to as the measurement alternative. Any adjustments to the carrying value of these investments are recorded in Noninterest income in the Company's Consolidated Statements of Income.

For additional information on the Company's equity securities, see Note 9, "Other Assets," and Note 16, "Fair Value Election and Measurement."

Derivative Instruments and Hedging Activities

The Company records derivative contracts at fair value in the Consolidated Balance Sheets. Accounting for changes in the fair value of a derivative depends upon whether or not it has been designated in a formal, qualifying hedging relationship.

Changes in the fair value of derivatives not designated in a hedging relationship are recorded in noninterest income.

This includes derivatives that the Company enters into in a dealer capacity to facilitate client transactions and as a risk management tool to economically hedge certain identified risks, along with certain IRLCs on residential mortgage and commercial loans that are a normal part of the Company's operations. The Company

Notes to Consolidated Financial Statements (Unaudited), continued

also evaluates contracts, such as brokered deposits and debt, to determine whether any embedded derivatives are required to be bifurcated and separately accounted for as freestanding derivatives.

Certain derivatives used as risk management tools are designated as accounting hedges of the Company's exposure to changes in interest rates or other identified market risks. The Company prepares written hedge documentation for all derivatives which are designated as hedges of (i) changes in the fair value of a recognized asset or liability (fair value hedge) attributable to a specified risk or (ii) a forecasted transaction, such as the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness, along with support for management's assertion that the hedge will be highly effective. Methodologies related to hedge effectiveness include (i) statistical regression analysis of changes in the cash flows of the actual derivative and hypothetical derivatives, or (ii) statistical regression analysis of changes in the fair values of the actual derivative and the hedged item.

For designated hedging relationships, subsequent to the initial assessment of hedge effectiveness, the Company generally performs retrospective and prospective effectiveness testing using a qualitative approach. Assessments of hedge effectiveness are performed at least quarterly. Changes in the fair value of a derivative that is highly effective and that has been designated and qualifies as a fair value hedge are recorded in current period earnings, in the same line item with the changes in the fair value of the hedged item that are attributable to the hedged risk. The changes in the fair value of a derivative that is highly effective and that has been designated and qualifies as a cash flow hedge is initially recorded in AOCI and reclassified to earnings in the

same period that the hedged item impacts earnings. The amount reclassified to earnings is recorded in the same line item as the earnings effect of the hedged item.

Hedge accounting ceases for hedging relationships that are no longer deemed effective, or for which the derivative has been terminated or de-designated. For discontinued fair value hedges where the hedged item remains outstanding, the hedged item would cease to be remeasured at fair value attributable to changes in the hedged risk and any existing basis adjustment would be recognized as an adjustment to net interest income over the remaining life of the hedged item. For discontinued cash flow hedges, the unrealized gains and losses recorded in AOCI would be reclassified to earnings in the period when the previously designated hedged cash flows occur unless it was determined that transaction was probable to not occur, in which case any unrealized gains and losses in AOCI would be immediately reclassified to earnings.

It is the Company's policy to offset derivative transactions with a single counterparty as well as any cash collateral paid to and received from that counterparty for derivative contracts that are subject to ISDA or other legally enforceable netting arrangements and meet accounting guidance for offsetting treatment. For additional information on the Company's derivative activities, see Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement."

Subsequent Events

The Company evaluated events that occurred between September 30, 2018 and the date the accompanying financial statements were issued, and there were no material events, other than those already discussed in this Form 10-Q, that would require recognition in the Company's Consolidated Financial Statements or disclosure in the accompanying Notes.

Accounting Pronouncements

The following table summarizes ASUs issued by the FASB that were adopted during the current year or not yet adopted as of September 30, 2018, that could have a material effect on the Company's financial statements:

Standard	Description	Required Date of	Effect on the Financial Statements or Other Significant Matters
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Adoption

Standards Adopted in 2018

ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606) and subsequent related ASUs

These ASUs comprise ASC Topic 606, Revenue from Contracts with Customers, which supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of these ASUs 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.

January 1, 2018

The Company adopted these ASUs on a modified retrospective basis beginning January 1, 2018. Upon adoption, the Company recognized an immaterial cumulative effect adjustment that resulted in a decrease to the beginning balance of retained earnings as of January 1, 2018. Furthermore, the Company prospectively changed the presentation of certain types of revenue and expenses, such as underwriting revenue within investment banking income which is shown on a gross basis, and certain cash promotions and card network expenses, which were reclassified from noninterest expense to service charges on deposit accounts, card fees, and other charges and fees. The net quantitative impact of these presentation changes decreased both revenue and expenses by \$9 million and \$16 million for the three and nine months ended September 30, 2018, respectively; however, these presentation changes did not have an impact on net income. Prior period balances have not been restated to reflect these presentation changes. See Note 2, "Revenue Recognition," for disclosures relating to ASC Topic 606.

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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Adopted in 2018 (continued)			
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities; and ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	These ASUs amend ASC Topic 825, Financial Instruments-Overall, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require most investments in equity securities to be measured at fair value through net income, unless they qualify for a measurement alternative, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. With the exception of disclosure requirements and the application of the measurement alternative for certain equity investments that was adopted prospectively, these ASUs must be adopted on a modified retrospective basis.	January 1, 2018 Early adoption was permitted for the provision related to changes in instrument-specific credit risk for financial liabilities under the FVO.	<p>The Company early adopted the provision related to changes in instrument-specific credit risk beginning January 1, 2016, which resulted in an immaterial cumulative effect adjustment from retained earnings to AOCI. See Note 1, "Significant Accounting Policies," to the Company's 2016 Annual Report on Form 10-K for additional information regarding the early adoption of this provision.</p> <p>Additionally, the Company adopted the remaining provisions of these ASUs beginning January 1, 2018, which resulted in an immaterial cumulative effect adjustment to the beginning balance of retained earnings. In connection with the adoption of these ASUs, an immaterial amount of equity securities previously classified as securities AFS were reclassified to other assets, as the AFS classification is no longer permitted for equity securities under these ASUs.</p> <p>Subsequent to adoption of these ASUs, the Company recognized net gains on certain of its equity investments during the three and nine months ended September 30, 2018. For additional information relating to these net gains, see Note 9, "Other Assets," and Note 16, "Fair Value Election and Measurement."</p> <p>The remaining provisions and disclosure requirements of these ASUs did not have a material impact on the Company's Consolidated Financial Statements or related</p>

<p>ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments</p>	<p>This ASU amends ASC Topic 230, Statement of Cash Flows, to clarify the classification of certain cash receipts and payments within the Company's Consolidated Statements of Cash Flows. These items include: cash payments for debt prepayment or debt extinguishment costs; cash outflows for the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned and bank-owned life insurance policies; distributions received from equity method investees; and beneficial interests acquired in securitization transactions. The ASU also clarifies that when no specific U.S. GAAP guidance exists and the source of the cash flows are not separately identifiable, the predominant source of cash flow should be used to determine the classification for the item. The ASU must be adopted on a retrospective basis.</p>	<p>January 1, 2018</p>	<p>disclosures upon adoption.</p> <p>The Company adopted this ASU on a retrospective basis effective January 1, 2018 and changed the presentation of certain cash payments and receipts within its Consolidated Statements of Cash Flows. Specifically, the Company changed the presentation of proceeds from the settlement of bank-owned life insurance policies from operating activities to investing activities. The Company also changed the presentation of cash payments for bank-owned life insurance policy premiums from operating activities to investing activities. Lastly, for contingent consideration payments made more than three months after a business combination, the Company changed the presentation for the portion of the cash payment up to the acquisition date fair value of the contingent consideration as a financing activity and any amount paid in excess of the acquisition date fair value as an operating activity.</p>
<p>ASU 2017-09, Stock Compensation (Topic 718):</p>	<p>This ASU amends ASC Topic 718, Stock Compensation, to provide guidance about which changes to the terms or conditions of a share-based</p>	<p>January 1, 2018</p>	<p>For the nine months ended September 30, 2018 and 2017, the Company reclassified \$201 million and \$127 million, respectively, of cash payments for bank-owned life insurance policy premiums and an immaterial amount of proceeds from the settlement of bank-owned life insurance policies from operating activities to investing activities on the Company's Consolidated Statements of Cash Flows. The remaining presentation change described above was immaterial for both the nine months ended September 30, 2018 and 2017.</p> <p>The Company adopted this ASU on January 1, 2018 and upon adoption, the ASU did not have a material impact on the Company's</p>

Scope of
Modification
Accounting

payment award require an entity to apply modification accounting per ASC Topic 718, Stock Compensation. The amendments clarify that modification accounting only applies to an entity if the fair value, vesting conditions, or classification of the award changes as a result of changes in the terms or conditions of a share-based payment award. The ASU should be applied prospectively to awards modified on or after the adoption date.

Consolidated Financial Statements
or related disclosures.

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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Adopted in 2018 (continued)			
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This ASU amends ASC Topic 815, Derivatives and Hedging, to simplify the requirements for hedge accounting. Key amendments include: eliminating the requirement to separately measure and report hedge ineffectiveness, requiring changes in the value of the hedging instrument to be presented in the same income statement line as the earnings effect of the hedged item, and the ability to measure the hedged item based on the benchmark interest rate component of the total contractual coupon for fair value hedges. These changes expand the types of risk management strategies eligible for hedge accounting. The ASU also permits entities to qualitatively assert that a hedging relationship was and continues to be highly effective. New incremental disclosures are required for reporting periods subsequent to the date of adoption. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption using a modified retrospective approach.	January 1, 2019 Early adoption is permitted.	The Company early adopted this ASU beginning January 1, 2018 and modified its measurement methodology for certain hedged items designated under fair value hedge relationships. The Company elected to perform its subsequent assessments of hedge effectiveness using a qualitative, rather than a quantitative, approach. The adoption resulted in an immaterial cumulative effect adjustment to the opening balance of retained earnings and a basis adjustment to the related hedged items arising from measuring the hedged items based on the benchmark interest rate component of the total contractual coupon of the fair value hedges. For additional information on the Company's derivative and hedging activities, see Note 15, "Derivative Financial Instruments."
ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from AOCI	This ASU amends ASC Topic 220, Income Statement - Reporting Comprehensive Income, to allow for a reclassification from AOCI to Retained earnings for the tax effects stranded in AOCI as a result of the remeasurement of DTAs and DTLs for the change in the federal corporate tax rate pursuant to the 2017 Tax Act, which was recognized through the income tax provision in 2017. The Company may apply this ASU at the beginning of the period of adoption or retrospectively to all periods in which the 2017 Tax Act is enacted.	January 1, 2019 Early adoption is permitted.	The Company early adopted this ASU beginning January 1, 2018. Upon adoption of this ASU, the Company elected to reclassify \$182 million of stranded tax effects relating to securities AFS, derivative instruments, credit risk on long-term debt, and employee benefit plans from AOCI to retained earnings. This amount was offset by \$28 million of stranded tax effects relating to equity securities previously classified as securities AFS, resulting in a net \$154 million increase to retained earnings.
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure	This ASU amends ASC Topic 820, Fair Value Measurement, to add new disclosure requirements, as well as to modify and remove certain disclosure requirements to improve the	January 1, 2020	The Company early adopted this ASU beginning September 30, 2018 and modified its fair value disclosures accordingly. The adoption of this

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Framework - Changes to the Disclosure Requirements for Fair Value Measurement	effectiveness of disclosures in the notes to financial statements. In the initial period of adoption, the Company will be required to disclose the average of significant unobservable inputs used to develop level 3 fair value measurements and to disclose information about the measurement uncertainty around these measurements on a prospective basis. All other amendments of this ASU must be applied retrospectively to all periods presented upon adoption.	Early adoption is permitted.	ASU did not have an impact on the Company's Consolidated Financial Statements. See Note 16, "Fair Value Election and Measurement," for the Company's fair value disclosures.
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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Not Yet Adopted			
ASU 2016-02, Leases (ASC Topic 842) and subsequent related ASUs	<p>This ASU creates ASC Topic 842, Leases, which supersedes ASC Topic 840, Leases. ASC Topic 842 requires lessees to recognize right-of-use assets and associated liabilities that arise from leases, with the exception of short-term leases. The ASU does not make significant changes to lessor accounting; however, there were certain improvements made to align lessor accounting with the lessee accounting model and ASC Topic 606, Revenue from Contracts with Customers. There are several new qualitative and quantitative disclosures required.</p> <p>Upon transition, lessees and lessors have the option to:</p> <ul style="list-style-type: none"> - Recognize and measure leases at the beginning of the earliest period presented using a modified retrospective transition approach, or - Apply a modified retrospective transition approach as of the date of adoption. 	<p>January 1, 2019</p> <p>Early adoption is permitted.</p>	<p>The Company has formed a cross-functional team to oversee the implementation of this ASU. The Company's implementation efforts are ongoing, including the review of its lease portfolios and related lease accounting policies, the review of its service contracts for embedded leases, and the deployment of a new lease software solution. Additionally, in conjunction with this implementation, the Company is reviewing business processes and evaluating potential changes to its control environment.</p> <p>The Company will adopt this ASU on January 1, 2019, which will result in an increase in right-of-use assets and associated lease liabilities, arising from operating leases in which the Company is the lessee, on its Consolidated Balance Sheets. The amount of the right-of-use assets and associated lease liabilities recorded upon adoption will be based primarily on the present value of unpaid future minimum lease payments, the amount of which will depend on the population of leases in effect at the date of adoption. At September 30, 2018, the Company's estimate of right-of-use assets and lease liabilities that would be recorded on its Consolidated Balance Sheets upon adoption was between \$1.0 billion and \$1.5 billion.</p> <p>The Company expects to recognize a cumulative effect adjustment upon adoption to increase the beginning balance of retained earnings as of January 1, 2019 for remaining deferred gains on sale-leaseback transactions which occurred prior to the date of</p>

adoption. The Company had approximately \$44 million of deferred gains on sale-leaseback transactions as of September 30, 2018. The Company does not expect this ASU to have a material impact on the timing of expense recognition in its Consolidated Statements of Income.

The Company has formed a cross-functional team to oversee the implementation of this ASU. A detailed implementation plan has been developed and substantial progress has been made on the identification and staging of data, development and validation of models, refinement of economic forecasting processes, and documentation of accounting policy decisions. Additionally, a new credit loss platform is being implemented to host data and run models in a controlled, automated environment. In conjunction with this implementation, the Company is reviewing business processes and evaluating potential changes to the control environment.

The Company plans to adopt this ASU on January 1, 2020, and it is evaluating the impact that this ASU will have on its Consolidated Financial Statements and related disclosures. The Company currently anticipates that an increase to the allowance for credit losses will be recognized upon adoption to provide for the expected credit losses over the estimated life of the financial assets. The magnitude of the increase will depend on economic conditions and trends in the Company's portfolio at the time of adoption.

ASU 2016-13, Measurement of Credit Losses on Financial Instruments

This ASU adds ASC Topic 326, Financial Instruments - Credit Losses, to replace the incurred loss impairment methodology with a current expected credit loss methodology for financial instruments measured at amortized cost and other commitments to extend credit. For this purpose, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is deducted from the amortized cost basis of the financial assets to reflect the net amount expected to be collected on the financial assets. Additional quantitative and qualitative disclosures are required upon adoption. The change to the allowance for credit losses at the time of the adoption will be made with a cumulative effect adjustment to Retained earnings.

January 1, 2020

Early adoption is permitted beginning January 1, 2019.

The current expected credit loss model does not apply to AFS debt securities; however, the ASU requires entities to record an allowance when recognizing credit losses for AFS securities, rather than recording a direct write-down of the carrying amount.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill

This ASU amends ASC Topic 350, Intangibles - Goodwill and Other, to simplify the subsequent measurement of goodwill, by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying

January 1, 2020

Early adoption is permitted.

Based on the Company's most recent annual goodwill impairment test performed as of October 1, 2017, there were no reporting units for which the carrying amount of the reporting unit exceeded its fair value; therefore, this ASU would not currently have an impact on the Company's Consolidated

Impairment	amount. This ASU requires an entity to recognize an impairment charge for the amount by which a reporting unit's carrying amount exceeds its fair value, with the loss limited to the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis.	Financial Statements or related disclosures. However, if upon the adoption date, which is expected to occur on January 1, 2020, the carrying amount of a reporting unit exceeds its fair value, the Company would be required to recognize an impairment charge for the amount that the carrying value exceeds the fair value.
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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Not Yet Adopted (continued)			
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	This ASU amends ASC Subtopic 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General, to add new disclosure requirements, as well as to remove certain disclosure requirements to improve the effectiveness of disclosures in the notes to financial statements. The ASU must be adopted on a retrospective basis.	December 31, 2020 Early adoption is permitted.	The Company is in the process of evaluating this ASU and does not expect this ASU to have a material impact on its Consolidated Financial Statements or related disclosures.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	This ASU amends ASC Subtopic 350-40, Intangibles - Goodwill and Other - Internal-Use Software, to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company may apply this ASU either retrospectively, or prospectively to all implementation costs incurred after the date of adoption.	January 1, 2020 Early adoption is permitted.	The Company is in the process of evaluating this ASU. The Company's current accounting policy for capitalizing implementation costs incurred in a hosting arrangement generally aligns with the requirements of this ASU. Therefore, the Company's adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements or related disclosures.

NOTE 2 – REVENUE RECOGNITION

Pursuant to the Company's adoption of ASC Topic 606, Revenue from Contracts with Customers, the following disclosures discuss the Company's revenue recognition accounting policies. The Company recognizes two primary types of revenue: Interest income and noninterest income.

Interest Income

The Company's principal source of revenue is interest income from loans and securities, which is recognized on an accrual basis using the effective interest method. For additional information on the Company's policies for recognizing interest income on loans and securities, see Note 1, "Significant Accounting Policies," in the Company's 2017 Annual Report on Form 10-K. Interest income is not within the scope of ASC Topic 606.

Noninterest Income

Noninterest income includes revenue from various types of transactions and services provided to clients. The following table reflects the Company's noninterest income disaggregated by the amount of revenue that is in scope and out of scope of ASC Topic 606.

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(Dollars in millions)	Three		Nine Months	
	Months	Ended	Months	Ended
	September	September 30	September	September 30
Noninterest income	2018	2017	2018	2017
Revenue in scope of ASC Topic 606	\$508	\$530	\$1,514	\$1,571
Revenue out of scope of ASC Topic 606	274	316	894	949
Total noninterest income	\$782	\$846	\$2,408	\$2,520

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Notes to Consolidated Financial Statements (Unaudited), continued

The following tables further disaggregate the Company's noninterest income by financial statement line item, business segment, and by the amount of each revenue stream that is in scope or out of scope of ASC Topic 606. The commentary following these tables describes the nature, amount, and timing of the related revenue streams.

(Dollars in millions)	Three Months Ended September 30, 2018 ¹			Total
	Consumer ²	Wholesale ²	Out	
			of Scope ^{2, 3}	
Noninterest income				
Service charges on deposit accounts	\$111	\$33	\$—	\$144
Other charges and fees ⁴	28	3	58	89
Card fees	49	26	—	75
Investment banking income ⁴	—	101	49	150
Trading income	—	—	42	42
Trust and investment management income	79	—	1	80
Retail investment services	73	—	1	74
Mortgage servicing related income	—	—	43	43
Mortgage production related income	—	—	40	40
Commercial real estate related income	—	—	24	24
Net securities gains	—	—	—	—
Other noninterest income	5	—	16	21
Total noninterest income	\$345	\$163	\$274	\$782

¹ Amounts are presented in accordance with ASC Topic 606, Revenue from Contracts with Customers, except for out of scope amounts.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$100 million and \$210 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$36) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

³ The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.

⁴ Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

(Dollars in millions)	Three Months Ended September 30, 2017 ¹			Total
	Consumer ²	Wholesale ²	Out	
			of Scope ^{2, 3}	
Noninterest income				
Service charges on deposit accounts	\$119	\$35	\$—	\$154

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Other charges and fees ⁴	29	3	57	89
Card fees	58	27	1	86
Investment banking income ⁴	—	106	63	169
Trading income	—	—	51	51
Trust and investment management income	78	—	1	79
Retail investment services	69	—	—	69
Mortgage servicing related income	—	—	46	46
Mortgage production related income	—	—	61	61
Commercial real estate related income	—	—	17	17
Net securities gains	—	—	—	—
Other noninterest income	6	—	19	25
Total noninterest income	\$359	\$171	\$316	\$846

¹ Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, Revenue Recognition, and have not been restated to conform with ASC Topic 606, Revenue from Contracts with Customers.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$123 million and \$226 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$33) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

³ The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.

⁴ Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Nine Months Ended September 30, 2018 ¹			Total
	Consumer ²	Wholesale ²	Out of Scope ^{2, 3}	
Noninterest income				
Service charges on deposit accounts	\$330	\$103	\$—	\$433
Other charges and fees ⁴	85	8	171	264
Card fees	160	78	3	241
Investment banking income ⁴	—	287	166	453
Trading income	—	—	137	137
Trust and investment management income	228	—	2	230
Retail investment services	216	2	1	219
Mortgage servicing related income	—	—	138	138
Mortgage production related income	—	—	118	118
Commercial real estate related income	—	—	66	66
Net securities gains	—	—	1	1
Other noninterest income	17	—	91	108
Total noninterest income	\$1,036	\$478	\$894	\$2,408

¹ Amounts are presented in accordance with ASC Topic 606, Revenue from Contracts with Customers, except for out of scope amounts.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$313 million and \$646 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$65) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

³ The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.

⁴ Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

(Dollars in millions)	Nine Months Ended September 30, 2017 ¹			Total
	Consumer ²	Wholesale ²	Out of Scope ^{2, 3}	
Noninterest income				
Service charges on deposit accounts	\$344	\$109	\$—	\$453
Other charges and fees ⁴	93	9	168	270
Card fees	172	81	2	255
Investment banking income ⁴	—	309	192	501

Trading income	—	—	148	148
Trust and investment management income	227	—	2	229
Retail investment services	206	1	1	208
Mortgage servicing related income	—	—	148	148
Mortgage production related income	—	—	170	170
Commercial real estate related income	—	—	61	61
Net securities gains	—	—	1	1
Other noninterest income	20	—	56	76
Total noninterest income	\$1,062	\$509	\$949	\$2,520

¹ Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, Revenue Recognition, and have not been restated to conform with ASC Topic 606, Revenue from Contracts with Customers.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$365 million and \$660 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$76) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

³ The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.

⁴ Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

Service Charges on Deposit Accounts

Service charges on deposit accounts represent fees relating to the Company's various deposit products. These fees include account maintenance, cash management, treasury management, wire transfers, overdraft and other deposit-related fees. The Company's execution of the services related to these fees represents its related performance obligations. Each of these

performance obligations are either satisfied over time or at a point in time as the services are provided to the customer. The Company is the principal when rendering these services. Payments for services provided are either withdrawn from the customer's account as services are rendered or in the billing period following the completion of the service. The transaction

Notes to Consolidated Financial Statements (Unaudited), continued

price for each of these fees is based on the Company's predetermined fee schedule.

Other Charges and Fees

Other charges and fees consist primarily of loan commitment and letter of credit fees, operating lease revenue, ATM fees, insurance revenue, and miscellaneous service charges including wire fees and check cashing fees. Loan commitment and letter of credit fees and operating lease revenue are out of scope of ASC Topic 606.

The Company's execution of the services related to the fees within the scope of ASC Topic 606 represents its related performance obligations, which are either satisfied at a point in time or over time as services are rendered. ATM fees and miscellaneous service charges are recognized at a point in time as the services are provided.

Insurance commission revenue is earned through the sale of insurance products. The commissions are recognized as revenue when the customer executes an insurance policy with the insurance carrier. In some cases, the Company receives payment of trailing commissions each year when the customer pays its annual premium. For both the three and nine months ended September 30, 2018, the Company recognized an immaterial amount of insurance trailing commissions related to performance obligations satisfied in prior periods.

Card Fees

Card fees consist of interchange fees from credit and debit cards, merchant acquirer revenue, and other card related services. Interchange fees are earned by the Company each time a request for payment is initiated by a customer at a merchant for which the Company transfers the funds on behalf of the customer. Interchange rates are set by the payment network and are based on purchase volumes and other factors. Interchange fees are received daily and recognized at a point in time when the card transaction is processed. The Company is considered an agent of the customer and incurs costs with the payment network to facilitate the interchange with the merchant; therefore, the related payment network expense is recognized as a reduction of card fees. Prior to the adoption of ASC Topic 606, these expenses were recognized in Outside processing and software in the Company's Consolidated Statements of Income. The Company offers rewards and/or rebates to its customers based on card usage. The costs associated with these programs are recognized as a reduction of card fees.

The Company also has a revenue sharing agreement with a merchant acquirer. The Company's referral of a merchant to the merchant acquirer represents its related performance obligation, which is satisfied at a point in time when the referral is made. Monthly revenue is estimated based on the expected amount of transactions processed. Payments are generally made by the merchant acquirer quarterly in the month following the quarter in which the services are rendered.

Investment Banking Income

Investment banking income is comprised primarily of securities underwriting fees, advisory fees, and loan syndication fees. The Company assists corporate clients in raising capital by offering equity or debt securities to potential investors. The underwriting fees are earned on the trade date when the Company, as a member

of an underwriting syndicate, purchases the securities from the issuer and sells the securities to third party investors. Each member of the syndicate is responsible for selling its portion of the underwriting and is liable for the proportionate costs of the underwriting; therefore, the Company's portion of underwriting revenue and expense is presented gross within noninterest income and noninterest expense. Prior to the adoption of ASC Topic 606, underwriting expense was recorded as a reduction of investment banking income. The transaction price is based on a percentage of the total transaction amount and payments are settled shortly after the trade date.

Loan syndication fees are typically recognized at the closing of a loan syndication transaction. These fees are out of the scope of ASC Topic 606.

The Company also provides merger and acquisition advisory services, including various activities such as business valuation, identification of potential targets or acquirers, and the issuance of fairness opinions. The Company's

execution of these advisory services represents its related performance obligations. The performance obligations relating to advisory services are fulfilled at a point in time upon completion of the contractually specified merger or acquisition. The transaction price is based on contractually specified terms agreed upon with the client for each advisory service. Additionally, payments for advisory services consist of upfront retainer fees and success fees at the date the related merger or acquisition is closed. The retainer fees are typically paid upfront, which creates a contract liability. At September 30, 2018, the contract liability relating to these retainer fees was immaterial. Revenue related to trade execution services is earned on the trade date and recognized at a point in time. The fees related to trade execution services are due on the settlement date.

Trading Income

The Company recognizes trading income as a result of gains and losses from the sales of trading account assets and liabilities. The Company also recognizes trading income as a result of changes in the fair value of trading account assets and liabilities that it holds. The Company's trading accounts include various types of debt and equity securities, trading loans, and derivative instruments. For additional information relating to trading income, see Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement."

Trust and Investment Management Income

Trust and investment management income includes revenue from custodial services, trust administration, financial advisory services, employee benefit solutions, and other services provided to customers within the Consumer business segment.

The Company generally recognizes trust and investment management revenue over time as services are rendered. Revenue is based on either a percentage of the market value of the assets under management, or advisement, or fixed based on the services provided to the customer. Fees are generally swept from the customer's account one billing period in arrears based on the prior period's assets under management or advisement.

Retail Investment Services

Retail investment services consists primarily of investment management, selling and distribution services, and trade

Notes to Consolidated Financial Statements (Unaudited), continued

execution services. The Company's execution of these services represents its related performance obligations. Investment management fees are generally recognized over time as services are rendered and are based on either a percentage of the market value of the assets under management, or advisement, or fixed based on the services provided to the customer. The fees are calculated quarterly and are usually collected at the beginning of the period from the customer's account and recognized ratably over the related billing period.

The Company also offers selling and distribution services and earns commissions through the sale of annuity and mutual fund products. The Company acts as an agent in these transactions and recognizes revenue at a point in time when the customer enters into an agreement with the product carrier. The Company may also receive trailing commissions and 12b-1 fees related to mutual fund and annuity products, and recognizes this revenue in the period that they are realized since the revenue cannot be accurately predicted at the time the policy becomes effective. The Company recognized revenue of \$12 million and \$38 million for the three and nine months ended September 30, 2018, respectively, which relates to mutual fund 12b-1 fees and annuity trailing commissions from performance obligations satisfied in periods prior to September 30, 2018.

Trade execution commissions are earned and recognized on the trade date, when the Company executes a trade for a customer. Payment for the trade execution is due on the settlement date.

Mortgage Servicing Related Income

The Company recognizes as assets the rights to service mortgage loans, either when the loans are sold and the associated servicing rights are retained or when servicing rights are purchased from a third party. Mortgage servicing related income includes servicing fees, modification fees, fees for ancillary services, other fees customarily associated with servicing arrangements, gains or losses from hedging, and changes in the fair value of residential MSRs inclusive of decay resulting from the realization of monthly net servicing cash flows. For additional information relating to mortgage servicing related income, see Note 1, "Significant Accounting Policies," in the Company's 2017 Annual Report on Form 10-K, and Note 8, "Goodwill and Other Intangible Assets," Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement," in this Form 10-Q.

Mortgage Production Related Income

Mortgage production related income is comprised primarily of activity related to the sale of consumer mortgage loans as well as loan origination fees such as closing charges, document review fees, application fees, other loan origination fees, and loan processing fees. For additional information relating to mortgage production related income, see Note 1, "Significant Accounting Policies," in the Company's 2017 Annual Report on Form 10-K, and Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement," in this Form 10-Q.

Commercial Real Estate Related Income

Commercial real estate related income consists primarily of origination fees, such as loan placement and broker fees, gains and losses on the sale of commercial loans, commercial mortgage

loan servicing fees, income from community development investments, gains and losses from the sale of structured real estate, and other fee income, such as asset advisory fees. For additional information relating to commercial real estate related income, see Note 1, "Significant Accounting Policies," in the Company's 2017 Annual Report on Form 10-K, and Note 8, "Goodwill and Other Intangible Assets," Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement," in this Form 10-Q.

Net Securities Gains or Losses

The Company recognizes net securities gains or losses primarily as a result of the sale of securities AFS and the recognition of any OTTI on securities AFS. For additional information relating to net securities gains or losses, see Note 5, "Investment Securities."

Other Noninterest Income

Other noninterest income within the scope of ASC Topic 606 consists primarily of fees from the sale of customized personal checks. The Company serves as an agent for customers by connecting them with a third party check provider. Revenue from such sales are earned in the form of commissions from the third party check provider and is recognized at a point in time on the date the customer places an order. Commissions for personal check orders are credited to revenue on an ongoing basis, and commissions for commercial check orders are received quarterly in arrears. Other noninterest income also includes income from bank-owned life insurance policies that is not within the scope of ASC Topic 606. Income from bank-owned life insurance primarily represents changes in the cash surrender value of such life insurance policies held on certain key employees, for which the Company is the owner and beneficiary. Revenue is recognized in each period based on the change in the cash surrender value during the period.

Practical Expedients and Other

The Company has elected the practical expedient to exclude disclosure of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

The Company pays sales commissions as a cost to obtain certain contracts within the scope of ASC Topic 606; however, sales commissions relating to these contracts are generally expensed when incurred because the amortization period would be one year or less. Sales commissions are recognized as employee compensation within Noninterest expense on the Company's Consolidated Statements of Income.

At September 30, 2018, the Company does not have any material contract assets, liabilities, or other receivables recorded on its Consolidated Balance Sheets, relating to its revenue streams within the scope of ASC Topic 606. Additionally, the Company's contracts generally do not contain terms that require significant judgment to determine the amount of revenue to recognize.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 3 - FEDERAL FUNDS SOLD AND SECURITIES FINANCING ACTIVITIES

Federal Funds Sold and Securities Borrowed or Purchased Under Agreements to Resell

Fed Funds sold and securities borrowed or purchased under agreements to resell were as follows:

(Dollars in millions)	September 30, 2018	December 31, 2017
Fed funds sold	\$46	\$65
Securities borrowed	429	298
Securities purchased under agreements to resell	899	1,175
Total Fed funds sold and securities borrowed or purchased under agreements to resell	\$1,374	\$1,538

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which the securities will be subsequently resold, plus accrued interest. Securities borrowed are primarily collateralized by corporate securities. The Company borrows securities and purchases securities under agreements to resell as part of its securities financing activities. On the acquisition date of these 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 respective agreements. At September 30, 2018 and December 31, 2017, the total market value of collateral held was \$1.3 billion and \$1.5 billion, of which \$112 million and \$177 million was repledged, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are accounted for as secured borrowings. The following table presents the Company's related activity, by collateral type and remaining contractual maturity:

(Dollars in millions)	September 30, 2018				December 31, 2017			
	Overnight and Continuously	to 30 days	30-90 days	Total	Overnight and Continuously	to 30 days	30-90 days	Total
U.S. Treasury securities	\$119	\$23	\$—	\$142	\$95	\$—	\$—	\$95
Federal agency securities	64	43	—	107	101	15	—	116
MBS - agency	772	148	—	920	694	135	—	829
CP	19	—	—	19	19	—	—	19
Corporate and other debt securities	356	146	40	542	316	88	40	444
Total securities sold under agreements to repurchase	\$1,330	\$360	\$40	\$1,730	\$1,225	\$238	\$40	\$1,503

For securities sold under agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. This risk is managed by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

Netting of Securities - Repurchase and Resell Agreements

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting agreements or similar agreements are discussed in Note 15, "Derivative Financial Instruments."

The following table presents the Company's securities borrowed or purchased under agreements to resell and securities

sold under agreements to repurchase that are subject to MRAs. Generally, MRAs require collateral to exceed the asset or liability recognized on the balance sheet. Transactions subject to these agreements are treated as collateralized

financings, and those with a single counterparty are permitted to be presented net on the Company's Consolidated Balance Sheets, provided certain criteria are met that permit balance sheet netting. At September 30, 2018 and December 31, 2017, there were no such transactions subject to legally enforceable MRAs that were eligible for balance sheet netting. The following table includes the amount of collateral pledged or received related to exposures subject to enforceable MRAs. While these agreements are typically over-collateralized, the amount of collateral presented in this table is limited to the amount of the related recognized asset or liability for each counterparty.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
September 30, 2018					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,328	\$—	\$1,328	¹ \$1,309	\$19
Financial liabilities:					
Securities sold under agreements to repurchase	1,730	—	1,730	1,730	—
December 31, 2017					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,473	\$—	\$1,473	¹ \$1,462	\$11
Financial liabilities:					
Securities sold under agreements to repurchase	1,503	—	1,503	1,503	—

¹ Excludes \$46 million and \$65 million of Fed Funds sold, which are not subject to a master netting agreement at September 30, 2018 and December 31, 2017, respectively.

NOTE 4 - TRADING ASSETS AND LIABILITIES AND DERIVATIVE INSTRUMENTS

The fair values of the components of trading assets and liabilities and derivative instruments are presented in the following table:

(Dollars in millions)	September 30, 2018	December 31, 2017
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	\$247	\$157
Federal agency securities	507	395
U.S. states and political subdivisions	91	61
MBS - agency	743	700
Corporate and other debt securities	820	655
CP	408	118
Equity securities	67	56
Derivative instruments ¹	622	802
Trading loans ²	2,171	2,149
Total trading assets and derivative instruments	\$5,676	\$5,093
Trading Liabilities and Derivative Instruments:		
U.S. Treasury securities	\$742	\$577
Corporate and other debt securities	411	289
Equity securities	12	9
Derivative instruments ¹	698	408
Total trading liabilities and derivative instruments	\$1,863	\$1,283

¹ Amounts include the impact of offsetting cash collateral received from and paid to the same derivative counterparties, and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists.

² Includes loans related to TRS.

Various trading and derivative instruments are used as part of the Company's overall balance sheet management strategies and to support client requirements executed through the Bank and/or STRH, a broker/dealer subsidiary of the Company. The Company manages the potential market volatility associated with trading instruments by using appropriate risk management strategies. The size, volume, and nature of the trading products and derivative instruments can vary based on economic conditions as well as client-specific and Company-specific asset or liability positions.

Product offerings to clients include debt securities, loans traded in the secondary market, equity securities, derivative contracts, and other similar financial instruments. Other trading-

related activities include acting as a market maker for certain debt and equity security transactions, derivative instrument transactions, and foreign exchange transactions. The Company also uses derivatives to manage its interest rate and market risk from non-trading activities. The Company has policies and procedures to manage market risk associated with client trading and non-trading activities, and assumes a limited degree of market risk by managing the size and nature of its exposure. For valuation assumptions and additional information related to the Company's trading products and derivative instruments, see Note 15, "Derivative Financial Instruments," and the "Trading Assets and Derivative Instruments and Investment Securities" section of Note 16, "Fair Value Election and Measurement."

Notes to Consolidated Financial Statements (Unaudited), continued

Pledged trading assets are presented in the following table:

(Dollars in millions)	September 30, December 31,	
	2018	2017
Pledged trading assets to secure repurchase agreements ¹	\$1,284	\$1,016
Pledged trading assets to secure certain derivative agreements	76	72
Pledged trading assets to secure other arrangements	40	41

¹ Repurchase agreements secured by collateral totaled \$1.2 billion and \$975 million at September 30, 2018 and December 31, 2017, respectively.

NOTE 5 – INVESTMENT SECURITIES

Investment Securities Portfolio Composition

(Dollars in millions)	September 30, 2018			
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Securities AFS:				
U.S. Treasury securities	\$4,275	\$—	\$142	\$4,133
Federal agency securities	224	2	3	223
U.S. states and political subdivisions	621	3	22	602
MBS - agency residential	23,112	111	718	22,505
MBS - agency commercial	2,713	1	112	2,602
MBS - non-agency commercial	943	—	38	905
Corporate and other debt securities	14	—	—	14
Total securities AFS	\$31,902	\$117	\$1,035	\$30,984

(Dollars in millions)	December 31, 2017 ¹			
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Securities AFS:				
U.S. Treasury securities	\$4,361	\$2	\$32	\$4,331
Federal agency securities	257	3	1	259
U.S. states and political subdivisions	618	7	8	617
MBS - agency residential	22,616	222	134	22,704
MBS - agency commercial	2,121	3	38	2,086
MBS - non-agency residential	55	4	—	59
MBS - non-agency commercial	862	7	3	866
ABS	6	2	—	8
Corporate and other debt securities	17	—	—	17
Total securities AFS	\$30,913	\$250	\$216	\$30,947

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability. See Note 9, "Other Assets," for additional information.

The following table presents interest on securities AFS:

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	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Taxable interest	\$207	\$187	\$614	\$551
Tax-exempt interest	5	4	14	9
Total interest on securities AFS ¹	\$212	\$191	\$628	\$560

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets and began presenting income associated with certain of these equity securities in Trading account interest and other on the Consolidated Statements of Income. For periods prior to January 1, 2018, this income was previously presented in Interest on securities available for sale and has been reclassified to Trading account interest and other for comparability.

Notes to Consolidated Financial Statements (Unaudited), continued

Investment securities pledged to secure public deposits, repurchase agreements, trusts, certain derivative agreements, and other funds had a fair value of \$3.4 billion and \$4.3 billion at September 30, 2018 and December 31, 2017, respectively.

The following table presents the amortized cost, fair value, and weighted average yield of the Company's investment securities at September 30, 2018, by remaining contractual maturity, with the exception of MBS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

(Dollars in millions)	Distribution of Remaining Maturities				
	Due in 1 Year or Less	Due After 1 Year through 5 Years	Due After 5 Years through 10 Years	Due After 10 Years	Total
Amortized Cost:					
Securities AFS:					
U.S. Treasury securities	\$15	\$2,695	\$1,565	\$—	\$4,275
Federal agency securities	113	28	8	75	224
U.S. states and political subdivisions	3	72	25	521	621
MBS - agency residential	1,619	6,488	14,736	269	23,112
MBS - agency commercial	1	467	1,937	308	2,713
MBS - non-agency commercial	—	12	931	—	943
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$1,751	\$9,776	\$19,202	\$1,173	\$31,902
Fair Value:					
Securities AFS:					
U.S. Treasury securities	\$15	\$2,615	\$1,503	\$—	\$4,133
Federal agency securities	114	28	8	73	223
U.S. states and political subdivisions	3	75	25	499	602
MBS - agency residential	1,674	6,341	14,230	260	22,505
MBS - agency commercial	1	448	1,859	294	2,602
MBS - non-agency commercial	—	12	893	—	905
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$1,807	\$9,533	\$18,518	\$1,126	\$30,984
Weighted average yield ¹	3.22 %	2.38 %	2.94 %	3.12 %	2.79 %

¹ Weighted average yields are based on amortized cost and presented on an FTE basis.

Notes to Consolidated Financial Statements (Unaudited), continued

Investment Securities in an Unrealized Loss Position

The Company held certain investment securities where amortized cost exceeded fair value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market prices of securities fluctuate. At September 30, 2018, the Company did not intend to sell these securities nor was it more-likely-than-not

that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company reviewed its portfolio for OTTI in accordance with the accounting policies described in Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K.

Investment securities in an unrealized loss position at period end are presented in the following tables:

(Dollars in millions)	September 30, 2018					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
Temporarily impaired securities AFS:						
U.S. Treasury securities	\$2,554	\$77	\$1,579	\$65	\$4,133	\$142
Federal agency securities	16	—	62	3	78	3
U.S. states and political subdivisions	210	7	280	15	490	22
MBS - agency residential	10,347	276	8,772	442	19,119	718
MBS - agency commercial	1,029	25	1,519	87	2,548	112
MBS - non-agency commercial	781	30	124	8	905	38
Corporate and other debt securities	—	—	9	—	9	—
Total temporarily impaired securities AFS	14,937	415	12,345	620	27,282	1,035
OTTI securities AFS ² :						
Total OTTI securities AFS	—	—	—	—	—	—
Total impaired securities AFS	\$14,937	\$415	\$12,345	\$620	\$27,282	\$1,035

¹ Unrealized losses less than \$0.5 million are presented as zero within the table.

² OTTI securities AFS are impaired securities for which OTTI credit losses have been previously recognized in earnings.

(Dollars in millions)	December 31, 2017 ¹					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Unrealized Losses ²	Fair Value	Unrealized Losses ²	Fair Value	Unrealized Losses ²
Temporarily impaired securities AFS:						
U.S. Treasury securities	\$1,993	\$12	\$841	\$20	\$2,834	\$32
Federal agency securities	23	—	60	1	83	1
U.S. states and political subdivisions	267	3	114	5	381	8
MBS - agency residential	8,095	38	4,708	96	12,803	134
MBS - agency commercial	887	9	915	29	1,802	38
MBS - non-agency commercial	134	1	93	2	227	3
ABS	—	—	4	—	4	—
Corporate and other debt securities	10	—	—	—	10	—
Total temporarily impaired securities AFS	11,409	63	6,735	153	18,144	216
OTTI securities AFS ³ :						
ABS	—	—	1	—	1	—

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Total OTTI securities AFS	—	—	1	—	1	—
Total impaired securities AFS	\$11,409	\$63	\$6,736	\$153	\$18,145	\$216

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability.

² Unrealized losses less than \$0.5 million are presented as zero within the table.

³ OTTI securities AFS are impaired securities for which OTTI credit losses have been previously recognized in earnings.

The Company does not consider the unrealized losses on temporarily impaired securities AFS to be credit-related. These unrealized losses were due primarily to market interest rates

being higher than the securities' stated coupon rates, and therefore, are recorded in AOCI, net of tax.

Notes to Consolidated Financial Statements (Unaudited), continued

Realized Gains and Losses and Other-Than-Temporarily Impaired Securities

Net securities gains or losses are comprised of gross realized gains, gross realized losses, and OTTI credit losses recognized in earnings.

	Three Months Ended September 30 2018	Nine Months Ended September 30 2017	2018	2017
(Dollars in millions)				
Gross realized gains	\$— \$1	\$7	\$2	
Gross realized losses	— (1)	(6)	(1)	
OTTI credit losses recognized in earnings	—	—	—	—
Net securities gains	\$— \$—	\$1	\$1	

Investment securities in an unrealized loss position are evaluated quarterly for other-than-temporary credit impairment, which is determined using cash flow analyses that take into account security specific collateral and transaction structure. Future expected credit losses are determined using various assumptions, the most significant of which include default rates, prepayment rates, and loss severities. If, based on this analysis, a security is in an unrealized loss position and the Company does not expect to recover the entire amortized cost basis of the security, the

expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. Credit losses on the OTTI security are recognized in earnings and reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security. Subsequent credit losses may be recorded on OTTI securities without a corresponding further decline in fair value when there has been a decline in expected cash flows. See Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K for additional information regarding the Company's policy on securities AFS and related impairments. During the three and nine months ended September 30, 2018 and 2017, there were no credit impairment losses recognized on securities AFS held at the end of each period. During the nine months ended September 30, 2018, the Company sold securities AFS that had accumulated OTTI credit losses of \$23 million and recognized an associated gain on sale of \$6 million in Net securities gains on the Consolidated Statements of Income. The accumulated balance of OTTI credit losses recognized in earnings on securities AFS held at period end was zero and \$22 million at September 30, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 6 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	September 30, December 31,	
	2018	2017
Commercial loans:		
C&I ¹	\$68,203	\$66,356
CRE	6,618	5,317
Commercial construction	3,137	3,804
Total commercial LHFI	77,958	75,477
Consumer loans:		
Residential mortgages - guaranteed	452	560
Residential mortgages - nonguaranteed ²	28,187	27,136
Residential home equity products	9,669	10,626
Residential construction	197	298
Guaranteed student	7,039	6,633
Other direct	10,100	8,729
Indirect	12,010	12,140
Credit cards	1,603	1,582
Total consumer LHFI	69,257	67,704
LHFI	\$147,215	\$143,181
LHFS ³	\$1,961	\$2,290

¹ Includes \$3.8 billion and \$3.7 billion of lease financing, and \$838 million and \$778 million of installment loans at September 30, 2018 and December 31, 2017, respectively.

² Includes \$168 million and \$196 million of LHFI measured at fair value at September 30, 2018 and December 31, 2017, respectively.

³ Includes \$1.8 billion and \$1.6 billion of LHFS measured at fair value at September 30, 2018 and December 31, 2017, respectively.

During the three months ended September 30, 2018 and 2017, the Company transferred \$122 million and \$91 million of LHFI to LHFS, and \$5 million and \$6 million of LHFS to LHFI, respectively. In addition to sales of residential and commercial mortgage LHFS in the normal course of business, the Company sold \$14 million and \$285 million of loans and leases during the three months ended September 30, 2018 and 2017, respectively, at a price approximating their recorded investment.

During the nine months ended September 30, 2018 and 2017, the Company transferred \$449 million and \$218 million of LHFI to LHFS, and transferred \$23 million and \$16 million of LHFS to LHFI, respectively. In addition to sales of residential and commercial mortgage LHFS in the normal course of business, the Company sold \$187 million and \$513 million of loans and leases during the nine months ended September 30, 2018 and 2017, respectively, at a price approximating their recorded investment.

During the three months ended September 30, 2018 and 2017, the Company purchased \$433 million and \$333 million, respectively, of guaranteed student loans. During the three months ended September 30, 2018, the Company purchased \$213 million of consumer indirect loans. No consumer indirect loans were purchased during the three months ended September 30, 2017. During each of the nine months ended September 30, 2018 and 2017, the Company purchased \$1.4 billion of guaranteed student loans, and purchased \$229 million and \$99 million, respectively, of consumer indirect loans.

At September 30, 2018 and December 31, 2017, the Company had \$26.1 billion and \$24.3 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support \$19.8 billion and \$18.2 billion of available, unused borrowing capacity, respectively.

At September 30, 2018 and December 31, 2017, the Company had \$39.4 billion and \$38.0 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support \$31.5 billion and \$30.5 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at September 30, 2018 was used to support \$3.0 billion of long-term debt and \$4.3 billion of letters of credit issued on the Company's behalf. At December 31, 2017, the available FHLB borrowing capacity was used to support \$4 million of long-term debt and \$6.7 billion of letters of credit issued on the Company's behalf.

Credit Quality Evaluation

The Company evaluates the credit quality of its loan portfolio by employing a dual internal risk rating system, which assigns both PD and LGD ratings to derive expected losses. Assignment of these ratings are predicated upon numerous factors, including consumer credit risk scores, rating agency information, borrower/guarantor financial capacity, LTV ratios, collateral type, debt service coverage ratios, collection experience, other internal metrics/analyses, and/or qualitative assessments.

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is an individual loan's risk assessment expressed according to the broad regulatory agency classifications of Pass or Criticized. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets Especially Mentioned (or Special Mention), Substandard, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the Criticized categories is between Criticized accruing (which includes Special Mention and a portion of Substandard) and Criticized nonaccruing (which includes a portion of Substandard as well as Doubtful and Loss). This distinction identifies those relatively higher risk loans for which there is a basis to believe that the Company will not collect all amounts due under those loan agreements. The Company's risk rating system is more granular, with multiple risk ratings in both the Pass and Criticized categories. Pass ratings reflect relatively low PDs, whereas, Criticized assets have higher PDs. The granularity in Pass ratings assists in establishing pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. Commercial risk ratings are refreshed at least annually, or more frequently as appropriate, based upon considerations such as market conditions, borrower characteristics, and portfolio trends. Additionally, management routinely reviews portfolio risk ratings, trends, and concentrations to support risk identification and mitigation activities.

For consumer loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company's formal underwriting

Notes to Consolidated Financial Statements (Unaudited), continued

process, and refreshed FICO scores are obtained by the Company at least quarterly.

For guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At both September 30, 2018 and December 31, 2017,

28% of guaranteed residential mortgages were current with respect to payments. At September 30, 2018 and December 31, 2017, 74% and 75%, respectively, of guaranteed student loans were current with respect to payments. The Company's loss exposure on guaranteed residential mortgages and student loans is mitigated by the government guarantee.

LHFI by credit quality indicator are presented in the following tables:

(Dollars in millions)	Commercial Loans					
	C&I		CRE		Commercial Construction	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Risk rating:						
Pass	\$66,224	\$64,546	\$6,418	\$5,126	\$3,038	\$3,770
Criticized accruing	1,723	1,595	157	167	99	33
Criticized nonaccruing	256	215	43	24	—	1
Total	\$68,203	\$66,356	\$6,618	\$5,317	\$3,137	\$3,804

(Dollars in millions)	Consumer Loans ¹					
	Residential Mortgages - Nonguaranteed		Residential Home Equity Products		Residential Construction	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Current FICO score range:						
700 and above	\$24,968	\$23,602	\$8,208	\$8,946	\$163	\$240
620 - 699	2,499	2,721	1,046	1,242	27	50
Below 620 ²	720	813	415	438	7	8
Total	\$28,187	\$27,136	\$9,669	\$10,626	\$197	\$298

(Dollars in millions)	Other Direct		Indirect		Credit Cards	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	Current FICO score range:					
700 and above	\$9,197	\$7,929	\$8,967	\$9,094	\$1,084	\$1,088
620 - 699	866	757	2,321	2,344	401	395
Below 620 ²	37	43	722	702	118	99
Total	\$10,100	\$8,729	\$12,010	\$12,140	\$1,603	\$1,582

¹ Excludes \$7.0 billion and \$6.6 billion of guaranteed student loans and \$452 million and \$560 million of guaranteed residential mortgages at September 30, 2018 and December 31, 2017, respectively, for which there was nominal risk of principal loss due to the government guarantee.

² For substantially all loans with refreshed FICO scores below 620, the borrower's FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.

Notes to Consolidated Financial Statements (Unaudited), continued

The LHFH portfolio by payment status is presented in the following tables:

(Dollars in millions)	September 30, 2018				Total
	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing ¹	
Commercial loans:					
C&I	\$67,897	\$40	\$10	\$256	\$68,203
CRE	6,572	2	1	43	6,618
Commercial construction	3,137	—	—	—	3,137
Total commercial LHFH	77,606	42	11	299	77,958
Consumer loans:					
Residential mortgages - guaranteed	127	38	287	—	³ 452
Residential mortgages - nonguaranteed ²	27,880	73	9	225	28,187
Residential home equity products	9,449	70	1	149	9,669
Residential construction	185	1	2	9	197
Guaranteed student	5,175	711	1,153	—	³ 7,039
Other direct	10,050	39	4	7	10,100
Indirect	11,905	99	—	6	12,010
Credit cards	1,573	15	15	—	1,603
Total consumer LHFH	66,344	1,046	1,471	396	69,257
Total LHFH	\$143,950	\$1,088	\$1,482	\$695	\$147,215

¹ Includes nonaccruing LHFH past due 90 days or more of \$348 million. Nonaccruing LHFH past due fewer than 90 days include nonaccrual loans modified in TDRs, performing second lien loans where the first lien loan is nonperforming, and certain energy-related commercial loans.

² Includes \$168 million of loans measured at fair value, the majority of which were accruing current.

³ Guaranteed loans are not placed on nonaccruing regardless of delinquency status because collection of principal and interest is reasonably assured by the government.

(Dollars in millions)	December 31, 2017				Total
	Accruing	30-89 Days Past Due	90+ Days Past Due	Nonaccruing ¹	
Commercial loans:					
C&I	\$66,092	\$42	\$7	\$215	\$66,356
CRE	5,293	—	—	24	5,317
Commercial construction	3,803	—	—	1	3,804
Total commercial LHFH	75,188	42	7	240	75,477
Consumer loans:					
Residential mortgages - guaranteed	159	55	346	—	³ 560
Residential mortgages - nonguaranteed ²	26,778	148	4	206	27,136
Residential home equity products	10,348	75	—	203	10,626
Residential construction	280	7	—	11	298
Guaranteed student	4,946	659	1,028	—	³ 6,633
Other direct	8,679	36	7	7	8,729

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Indirect	12,022	111	—	7	12,140
Credit cards	1,556	13	13	—	1,582
Total consumer LHFI	64,768	1,104	1,398	434	67,704
Total LHFI	\$139,956	\$1,146	\$1,405	\$674	\$143,181

¹ Includes nonaccruing LHFI past due 90 days or more of \$357 million. Nonaccruing LHFI past due fewer than 90 days include nonaccrual loans modified in TDRs, performing second lien loans where the first lien loan is nonperforming, and certain energy-related commercial loans.

² Includes \$196 million of loans measured at fair value, the majority of which were accruing current.

³ Guaranteed loans are not placed on nonaccruing regardless of delinquency status because collection of principal and interest is reasonably assured by the government.

Notes to Consolidated Financial Statements (Unaudited), continued

Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Commercial nonaccrual loans greater than \$3 million and certain commercial and consumer loans whose terms have been modified in a TDR are individually evaluated for

impairment. Smaller-balance homogeneous loans that are collectively evaluated for impairment and loans measured at fair value are not included in the following tables. Additionally, the following tables exclude guaranteed student loans and guaranteed residential mortgages for which there was nominal risk of principal loss due to the government guarantee.

(Dollars in millions)	September 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Carrying ¹ Value	Related ALLL	Unpaid Principal Balance	Carrying ¹ Value	Related ALLL
Impaired LHFI with no ALLL recorded:						
Commercial loans:						
C&I	\$51	\$32	\$—	\$38	\$35	\$—
CRE	21	20	—	—	—	—
Total commercial LHFI with no ALLL recorded	72	52	—	38	35	—
Consumer loans:						
Residential mortgages - nonguaranteed	483	378	—	458	363	—
Residential construction	12	6	—	15	9	—
Total consumer LHFI with no ALLL recorded	495	384	—	473	372	—
Impaired LHFI with an ALLL recorded:						
Commercial loans:						
C&I	189	165	26	127	117	19
CRE	25	21	2	21	21	2
Total commercial LHFI with an ALLL recorded	214	186	28	148	138	21
Consumer loans:						
Residential mortgages - nonguaranteed	1,049	1,027	101	1,133	1,103	113
Residential home equity products	873	821	49	953	895	54
Residential construction	83	81	6	93	90	7
Other direct	57	57	1	59	59	1
Indirect	131	131	6	123	122	7
Credit cards	29	8	1	26	7	1
Total consumer LHFI with an ALLL recorded	2,222	2,125	164	2,387	2,276	183
Total impaired LHFI	\$3,003	\$2,747	\$192	\$3,046	\$2,821	\$204

¹ Carrying value reflects charge-offs that have been recognized plus other amounts that have been applied to adjust the net book balance.

Included in the impaired LHFI carrying values above at September 30, 2018 and December 31, 2017 were \$2.3 billion and \$2.4 billion of accruing TDRs, of which 97% and 96% were current, respectively. See Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K for further information regarding the

Company's loan impairment policy.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2018		2017		2018		2017	
	Average Carrying Value	Interest ¹ Income Recognized	Average Carrying Value	Interest ¹ Income Recognized	Average Carrying Value	Interest ¹ Income Recognized	Average Carrying Value	Interest ¹ Income Recognized
Impaired LHFI with no ALLL recorded:								
Commercial loans:								
C&I	\$44	\$—	\$70	\$—	\$45	\$1	\$81	\$—
CRE	20	—	—	—	20	—	—	—
Total commercial LHFI with no ALLL recorded	64	—	70	—	65	1	81	—
Consumer loans:								
Residential mortgages - nonguaranteed	381	4	364	4	386	11	361	11
Residential construction	7	—	9	—	7	—	9	—
Total consumer LHFI with no ALLL recorded	388	4	373	4	393	11	370	11
Impaired LHFI with an ALLL recorded:								
Commercial loans:								
C&I	177	—	150	—	176	3	145	2
CRE	21	—	—	—	22	—	—	—
Total commercial LHFI with an ALLL recorded	198	—	150	—	198	3	145	2
Consumer loans:								
Residential mortgages - nonguaranteed	1,027	13	1,135	14	1,031	39	1,146	45
Residential home equity products	824	9	890	8	833	27	901	24
Residential construction	80	1	96	2	82	4	98	4
Other direct	57	1	58	1	58	3	59	3
Indirect	134	2	120	2	141	5	128	4
Credit cards	8	—	6	—	8	1	6	1
Total consumer LHFI with an ALLL recorded	2,130	26	2,305	27	2,153	79	2,338	81
Total impaired LHFI	\$2,780	\$30	\$2,898	\$31	\$2,809	\$94	\$2,934	\$94

¹ Of the interest income recognized during each of the three and nine months ended September 30, 2018 and 2017, cash basis interest income was immaterial.

Notes to Consolidated Financial Statements (Unaudited), continued

NPAs are presented in the following table:

(Dollars in millions)	September 30, December 31,	
	2018	2017
NPAs:		
Commercial NPLs:		
C&I	\$256	\$215
CRE	43	24
Commercial construction	—	1
Consumer NPLs:		
Residential mortgages - nonguaranteed	225	206
Residential home equity products	149	203
Residential construction	9	11
Other direct	7	7
Indirect	6	7
Total nonaccrual loans/NPLs ¹	695	674
OREO ²	52	57
Other repossessed assets	7	10
Total NPAs	\$754	\$741

¹ Nonaccruing restructured loans are included in total nonaccrual loans/NPLs.

² Does not include foreclosed real estate related to loans insured by the FHA or guaranteed by the VA. Proceeds due from the FHA and the VA are recorded as a receivable in Other assets in the Consolidated Balance Sheets until the property is conveyed and the funds are received. The receivable related to proceeds due from the FHA and the VA totaled \$49 million and \$45 million at September 30, 2018 and December 31, 2017, respectively.

The Company's recorded investment of nonaccruing loans secured by residential real estate properties for which formal foreclosure proceedings were in process at September 30, 2018 and December 31, 2017 was \$89 million and \$73 million, respectively. The Company's recorded investment of accruing loans secured by residential real estate properties for which formal foreclosure proceedings were in process at September 30, 2018 and December 31, 2017 was \$108 million and \$101 million, of which \$100 million and \$97 million were insured by the FHA or guaranteed by the VA, respectively.

At September 30, 2018, OREO included \$49 million of foreclosed residential real estate properties and \$2 million of foreclosed commercial real estate properties, with the remaining \$1 million related to land.

At December 31, 2017, OREO included \$51 million of foreclosed residential real estate properties and \$4 million of foreclosed commercial real estate properties, with the remaining \$2 million related to land.

Notes to Consolidated Financial Statements (Unaudited), continued

Restructured Loans

A TDR is a loan for which the Company has granted an economic concession to a borrower in response to financial difficulty experienced by the borrower, which the Company would not have considered otherwise. When a loan is modified under the terms of a TDR, the Company typically offers the borrower an extension of the loan maturity date and/or a reduction in the original contractual interest rate. In limited situations, the Company may offer to restructure a loan in a manner that

ultimately results in the forgiveness of a contractually specified principal balance.

At both September 30, 2018 and December 31, 2017, the Company had an immaterial amount of commitments to lend additional funds to debtors whose terms have been modified in a TDR. The number and carrying value of loans modified under the terms of a TDR, by type of modification, are presented in the following tables:

(Dollars in millions)	Three Months Ended September 30, 2018 ¹			
	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	47	\$—	\$16	\$16
Consumer loans:				
Residential mortgages - nonguaranteed	48	3	7	10
Residential home equity products	130	1	11	12
Other direct	141	—	2	2
Indirect	559	—	14	14
Credit cards	345	1	—	1
Total TDR additions	1,270	\$5	\$50	\$55

¹ Includes loans modified under the terms of a TDR that were charged-off during the period.

(Dollars in millions)	Nine Months Ended September 30, 2018 ¹			
	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	122	\$—	\$75	\$75
Consumer loans:				
Residential mortgages - nonguaranteed	267	18	46	64
Residential home equity products	410	1	34	35
Residential construction	4	—	—	—
Other direct	469	—	6	6
Indirect	1,954	—	46	46
Credit cards	1,079	4	—	4
Total TDR additions	4,305	\$23	\$207	\$230

¹ Includes loans modified under the terms of a TDR that were charged-off during the period.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2017 ¹			
	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	76	\$2	\$7	\$9
Consumer loans:				
Residential mortgages - nonguaranteed	41	6	4	10
Residential home equity products	696	18	45	63
Other direct	135	—	2	2
Indirect	738	—	17	17
Credit cards	182	1	—	1
Total TDR additions	1,868	\$27	\$75	\$102

¹ Includes loans modified under the terms of a TDR that were charged-off during the period.

(Dollars in millions)	Nine Months Ended September 30, 2017 ¹			
	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	136	\$2	\$86	\$88
Consumer loans:				
Residential mortgages - nonguaranteed	119	17	8	25
Residential home equity products	1,971	18	172	190
Other direct	425	—	6	6
Indirect	2,034	—	50	50
Credit cards	615	3	—	3
Total TDR additions	5,300	\$40	\$322	\$362

¹ Includes loans modified under the terms of a TDR that were charged-off during the period.

TDRs that defaulted during the three and nine months ended September 30, 2018 and 2017, which were first modified within the previous 12 months, were immaterial. The majority of loans that were modified under the terms of a TDR and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of delinquency.

Concentrations of Credit Risk

The Company does not have a significant concentration of credit risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the majority of the Company's LHFI portfolio represents borrowers that reside in Florida, Georgia, Virginia, Maryland, and North Carolina. The Company's cross-border outstanding loans totaled \$1.4 billion at both September 30, 2018 and December 31, 2017.

With respect to collateral concentration, the Company's recorded investment in residential real estate secured LHFI totaled \$38.5 billion at September 30, 2018 and represented 26% of total LHFI. At December 31, 2017, the

Company's recorded investment in residential real estate secured LHFIs totaled \$38.6 billion and represented 27% of total LHFIs. Additionally, at September 30, 2018 and December 31, 2017, the Company had commitments to extend credit on home equity lines of \$10.2 billion and \$10.1 billion, and had residential mortgage commitments outstanding of \$3.8 billion and \$3.0 billion, respectively. At both September 30, 2018 and December 31, 2017, 1% of the Company's LHFIs secured by residential real estate was insured by the FHA or guaranteed by the VA.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 7 - ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses consists of the ALLL and the unfunded commitments reserve. Activity in the allowance for credit losses by loan segment is presented in the following tables:

(Dollars in millions)	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Commercial	Consumer	Total	Commercial	Consumer	Total
ALLL, beginning of period	\$1,068	\$582	\$1,650	\$1,101	\$634	\$1,735
Provision for loan losses	36	25	61	37	91	128
Loan charge-offs	(51)	(71)	(122)	(95)	(234)	(329)
Loan recoveries	9	25	34	19	70	89
ALLL, end of period	1,062	561	1,623	1,062	561	1,623
Unfunded commitments reserve, beginning of period ¹	72	—	72	79	—	79
Benefit for unfunded commitments	—	—	—	(7)	—	(7)
Unfunded commitments reserve, end of period ¹	72	—	72	72	—	72
Allowance for credit losses, end of period	\$1,134	\$561	\$1,695	\$1,134	\$561	\$1,695

¹ The unfunded commitments reserve is recorded in Other liabilities in the Consolidated Balance Sheets.

(Dollars in millions)	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Commercial	Consumer	Total	Commercial	Consumer	Total
ALLL, beginning of period	\$1,140	\$591	\$1,731	\$1,124	\$585	\$1,709
Provision for loan losses	5	114	119	89	235	324
Loan charge-offs	(33)	(76)	(109)	(122)	(235)	(357)
Loan recoveries	11	20	31	32	64	96
ALLL, end of period	1,123	649	1,772	1,123	649	1,772
Unfunded commitments reserve, beginning of period ¹	72	—	72	67	—	67
Provision for unfunded commitments	1	—	1	6	—	6
Unfunded commitments reserve, end of period ¹	73	—	73	73	—	73
Allowance for credit losses, end of period	\$1,196	\$649	\$1,845	\$1,196	\$649	\$1,845

¹ The unfunded commitments reserve is recorded in Other liabilities in the Consolidated Balance Sheets.

As discussed in Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K, the ALLL is composed of both specific allowances for certain nonaccrual loans and TDRs, and general allowances for groups of loans with similar risk characteristics. No allowance is required for loans

measured at fair value. Additionally, the Company records an immaterial allowance for loan products that are insured by federal agencies or guaranteed by GSEs, as there is nominal risk of principal loss.

Notes to Consolidated Financial Statements (Unaudited), continued

The Company's LHFI portfolio and related ALLL are presented in the following tables:

September 30, 2018						
(Dollars in millions)	Commercial Loans		Consumer Loans		Total	
	Carrying Value	Related ALLL	Carrying Value	Related ALLL	Carrying Value	Related ALLL
LHFI evaluated for impairment:						
Individually evaluated	\$238	\$28	\$2,509	\$164	\$2,747	\$192
Collectively evaluated	77,720	1,034	66,580	397	144,300	1,431
Total evaluated	77,958	1,062	69,089	561	147,047	1,623
LHFI measured at fair value	—	—	168	—	168	—
Total LHFI	\$77,958	\$1,062	\$69,257	\$561	\$147,215	\$1,623

December 31, 2017						
(Dollars in millions)	Commercial Loans		Consumer Loans		Total	
	Carrying Value	Related ALLL	Carrying Value	Related ALLL	Carrying Value	Related ALLL
LHFI evaluated for impairment:						
Individually evaluated	\$173	\$21	\$2,648	\$183	\$2,821	\$204
Collectively evaluated	75,304	1,080	64,860	451	140,164	1,531
Total evaluated	75,477	1,101	67,508	634	142,985	1,735
LHFI measured at fair value	—	—	196	—	196	—
Total LHFI	\$75,477	\$1,101	\$67,704	\$634	\$143,181	\$1,735

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company conducts a goodwill impairment test at the reporting unit level at least annually, or more frequently as events occur or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. See Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K for additional information regarding the Company's goodwill accounting policy.

In the first, second, and third quarters of 2018, the Company performed qualitative goodwill assessments on its Consumer and Wholesale reporting units, considering changes in key assumptions as well as other events and circumstances occurring since the most recent annual goodwill impairment test performed as of October 1, 2017. The Company concluded, based on the totality of factors observed, that it is not more-likely-than-not

that the fair values of its reportable segments are less than their respective carrying values. Accordingly, goodwill was not required to be quantitatively tested for impairment during the nine months ended September 30, 2018.

In the second quarter of 2018, certain business banking clients were transferred from the Wholesale segment to the Consumer segment, resulting in the reallocation of \$128 million in goodwill. See Note 18, "Business Segment Reporting," for additional information. The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2018 are presented in the following table. There were no material changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2017.

Consumer	Wholesale	Total
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(Dollars in millions)

Balance, January 1, 2018	\$4,262	\$2,069	\$6,331
Reallocation related to intersegment transfer of business banking clients	128	(128)	—
Balance, September 30, 2018	\$4,390	\$1,941	\$6,331

Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

Changes in the carrying amount of other intangible assets are presented in the following table:

(Dollars in millions)	Commercial		
	Residential MSRs - Fair Value	Mortgage Servicing Rights and Other	Total
Balance, January 1, 2018	\$1,710	\$81	\$1,791
Amortization ¹	—	(13)	(13)
Servicing rights originated	250	10	260
Servicing rights purchased	89	—	89
Changes in fair value:			
Due to changes in inputs and assumptions ²	198	—	198
Other changes in fair value ³	(183)	—	(183)
Servicing rights sold	(2)	—	(2)
Balance, September 30, 2018	\$2,062	\$78	\$2,140
Balance, January 1, 2017	\$1,572	\$85	\$1,657
Amortization ¹	—	(16)	(16)
Servicing rights originated	252	10	262
Changes in fair value:			
Due to changes in inputs and assumptions ²	(27)	—	(27)
Other changes in fair value ³	(168)	—	(168)
Servicing rights sold	(1)	—	(1)
Other ⁴	—	(1)	(1)
Balance, September 30, 2017	\$1,628	\$78	\$1,706

¹ Does not include expense associated with community development investments. See Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," for additional information.

² Primarily reflects changes in option adjusted spreads and prepayment speed assumptions, due to changes in interest rates.

³ Represents changes due to the collection of expected cash flows, net of accretion due to the passage of time.

⁴ Represents measurement period adjustment on other intangible assets acquired previously in the Pillar acquisition.

The gross carrying value and accumulated amortization of other intangible assets are presented in the following table:

(Dollars in millions)	September 30, 2018			December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized other intangible assets ¹ :						
Commercial mortgage servicing rights	\$89	(\$25)	\$64	\$79	(\$14)	\$65
Other	19	(17)	2	32	(28)	4
Unamortized other intangible assets:						
Residential MSRs	2,062	—	2,062	1,710	—	1,710
Other	12	—	12	12	—	12
Total other intangible assets	\$2,182	(\$42)	\$2,140	\$1,833	(\$42)	\$1,791

¹ Excludes other intangible assets that are indefinite-lived, carried at fair value, or fully amortized.

Servicing Rights

The Company acquires servicing rights and retains servicing rights for certain of its sales or securitizations of residential mortgages and commercial loans. Servicing rights on residential and commercial mortgages are the only material servicing assets capitalized by the Company and are classified as Other intangible assets on the Company's Consolidated Balance Sheets.

Residential Mortgage Servicing Rights

Income earned by the Company on its residential MSR is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs, and is presented in the following table.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Income from residential MSR ¹	\$108	\$100	\$322	\$301

¹ Recognized in Mortgage servicing related income in the Consolidated Statements of Income.

The UPB of residential mortgage loans serviced for third parties is presented in the following table:

(Dollars in millions)	September 30, 2018	December 31, 2017
UPB of loans underlying residential MSR	\$139,955	\$136,071

Notes to Consolidated Financial Statements (Unaudited), continued

The Company purchased MSR on residential loans with a UPB of \$7.0 billion during the nine months ended September 30, 2018; \$5.9 billion of which are reflected in the UPB amounts above and the transfer of servicing for the remainder is scheduled for the fourth quarter of 2018. No MSR on residential loans were purchased during the nine months ended September 30, 2017. During the nine months ended September 30, 2018 and 2017, the Company sold MSR on residential loans, at a price approximating their fair value, with a UPB of \$781 million and \$350 million, respectively.

The Company measures the fair value of its residential MSR using a valuation model that calculates the present value of estimated future net servicing income using prepayment projections, spreads, and other assumptions. The Consumer Valuation Committee reviews and approves all significant assumption changes at least annually, drawing upon various market and empirical data sources. Changes to valuation model inputs are reflected in the periods' results. See Note 16, "Fair Value Election and Measurement," for further information regarding the Company's residential MSR valuation methodology.

A summary of the significant unobservable inputs used to estimate the fair value of the Company's residential MSR and the uncertainty of the fair values in response to 10% and 20% adverse changes in those inputs at the reporting date, are presented in the following table.

(Dollars in millions)	September 30, December 31,			
	2018		2017	
Fair value of residential MSR	\$2,062		\$1,710	
Prepayment rate assumption (annual)	12	%	13	%
Decline in fair value from 10% adverse change	\$91		\$85	
Decline in fair value from 20% adverse change	173		160	
Option adjusted spread (annual)	3	%	4	%
Decline in fair value from 10% adverse change	\$52		\$47	
Decline in fair value from 20% adverse change	100		90	
Weighted-average life (in years)	5.8		5.4	
Weighted-average coupon	4.0	%	3.9	%

Residential MSR uncertainties are hypothetical and should be used with caution. Changes in fair value based on variations in assumptions generally cannot be extrapolated because (i) the relationship of the change in an assumption to the change in fair value may not be linear and (ii) changes in one assumption may result in changes in another, which might magnify or counteract the uncertainties. The uncertainties do not reflect the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSR. See Note 15, "Derivative Financial Instruments," for further information regarding these hedging activities.

Commercial Mortgage Servicing Rights

Income earned by the Company on its commercial mortgage servicing rights is derived primarily from contractually specified servicing fees and other ancillary fees. The Company also earns income from subservicing certain third party commercial mortgages for which the Company does not record servicing

rights. The following table presents the Company's income earned from servicing commercial mortgages.

(Dollars in millions)	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30	30	30	30
	2018	2017	2018	2017
Income from commercial mortgage servicing rights ¹	\$5	\$6	\$20	\$17
Income from subservicing third party commercial mortgages ¹	3	3	9	11

¹ Recognized in Commercial real estate related income in the Consolidated Statements of Income.

The UPB of commercial mortgage loans serviced for third parties is presented in the following table:

(Dollars in millions)	September 30, December 31,	
	2018	2017
UPB of commercial mortgages subserviced for third parties	\$26,206	\$24,294
UPB of loans underlying commercial mortgage servicing rights	6,039	5,760
Total UPB of commercial mortgages serviced for third parties	\$32,245	\$30,054

No commercial mortgage servicing rights were purchased or sold during the nine months ended September 30, 2018 and 2017.

Commercial mortgage servicing rights are accounted for at amortized cost and are monitored for impairment on an ongoing basis. The Company calculates the fair value of commercial servicing rights based on the present value of estimated future net servicing income, considering prepayment projections and other assumptions. Impairment, if any, is recognized when the carrying value of the servicing asset exceeds the fair value at the measurement date. The amortized cost of the Company's commercial mortgage servicing rights was \$64 million and \$65 million at September 30, 2018 and December 31, 2017, respectively.

A summary of the significant unobservable inputs used to estimate the fair value of the Company's commercial mortgage servicing rights and the uncertainty of the fair values in response to 10% and 20% adverse changes in those inputs at the reporting date, are presented in the following table.

(Dollars in millions)	September 30, December 31,			
	2018		2017	
Fair value of commercial mortgage servicing rights	\$77		\$75	
Discount rate (annual)	12	%	12	%
Decline in fair value from 10% adverse change	\$3		\$3	
Decline in fair value from 20% adverse change	6		6	
Prepayment rate assumption (annual)	6	%	7	%
Decline in fair value from 10% adverse change	\$1		\$1	
Decline in fair value from 20% adverse change	2		2	
Weighted-average life (in years)	7.8		7.0	
Float earnings rate (annual)	1.1	%	1.1	%

Commercial mortgage servicing right uncertainties are hypothetical and should be used with caution.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 9 - OTHER ASSETS

The components of other assets are presented in the following table:

(Dollars in millions)	September 30, 2018	December 31, 2017
Equity securities ¹ :		
Marketable equity securities ² :		
Mutual fund investments	\$65	\$49
Other equity ³	27	7
Nonmarketable equity securities:		
Federal Reserve Bank stock ²	403	403
FHLB stock ²	142	15
Other equity ³	50	26
Lease assets	2,110	1,528
Tax credit investments ⁴	1,583	1,272
Bank-owned life insurance	1,619	1,411
Accrued income	1,059	880
Accounts receivable	669	2,201
Pension assets, net	518	464
Prepaid expenses	248	319
OREO	52	57
Other	887	786
Total other assets	\$9,432	\$9,418

¹ Equity securities held for trading purposes are classified in Trading assets and derivative instruments or Trading liabilities and derivative instruments on the Company's Consolidated Balance Sheets.

² Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability.

³ During the second quarter of 2018, the Company reclassified \$22 million of equity securities from nonmarketable to marketable equity securities due to readily determinable fair value information observed in active markets.

⁴ See Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," for additional information.

Equity Securities Not Classified as Trading Assets or Liabilities

Equity securities with readily determinable fair values (marketable) that are not held for trading purposes are recorded at fair value and include mutual fund investments and other publicly traded equity securities.

Equity securities without readily determinable fair values (nonmarketable) that are not held for trading purposes include Federal Reserve Bank of Atlanta and FHLB of Atlanta capital stock, both held at cost, as well as other equity securities that the Company elected to account for under the measurement alternative, pursuant to its adoption of ASU 2016-01 on January 1, 2018. See the "Equity Securities" and "Accounting Pronouncements" sections of Note 1, "Significant Accounting Policies," for additional information on the Company's adoption of ASU 2016-01 and for policy updates related to equity securities.

The following table summarizes net gains/(losses) for equity securities not classified as trading assets:

(Dollars in millions)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Net (losses)/gains from marketable equity securities ¹	(\$4)	\$10

Net gains/(losses) from nonmarketable equity securities:		
Remeasurement losses and impairment	—	—
Remeasurement gains ¹	7	30
Less: Net realized gains from sale	—	—
Total net unrealized gains from non-trading equity securities	\$3	\$40

¹ Recognized in Other noninterest income in the Company's Consolidated Statements of Income.

Lease Assets

Lease assets consist primarily of operating leases in which the Company is the lessor. In these scenarios, the Company leases assets and receives periodic rental payments. Depreciation on the leased asset is recognized over the term of the operating lease. Any impairment on the leased asset is recognized to the extent that the carrying value of the asset is not recoverable and is greater than its fair value.

Bank-Owned Life Insurance

Bank-owned life insurance consists of life insurance policies held on certain employees for which the Company is the beneficiary. These policies provide the Company an efficient form of funding for retirement and other employee benefits costs.

Accrued Income

Accrued income consists primarily of interest and other income accrued on the Company's LHFI. Interest income on loans, except those classified as nonaccrual, is accrued based upon the outstanding principal amounts using the effective yield method. See Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K for information regarding the Company's accounting policy for loans.

Accounts Receivable

Accounts receivable consists primarily of receivables from brokers, dealers, and customers related to pending loan trades, unsettled trades of securities, loan-related advances, and investment securities income due but not received. Additionally, includes proceeds due from the FHA and the VA on foreclosed real estate related to loans insured by the FHA or guaranteed by the VA.

Pension Assets

Pension assets (net) represent the funded status of the Company's overfunded pension and other postretirement benefits plans, measured as the difference between the fair value of plan assets and the benefit obligation at period end.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 10 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES

The Company has transferred loans and securities in sale or securitization transactions for which the Company retains certain beneficial interests, servicing rights, and/or recourse. These transfers of financial assets include certain residential mortgage loans, guaranteed student loans, and commercial loans, as discussed in the following section, "Transfers of Financial Assets." Cash receipts on beneficial interests held related to these transfers were immaterial for each of the three and nine months ended September 30, 2018 and 2017.

When a transfer or other transaction occurs with a VIE, the Company first determines whether it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in transferred assets and, at times, servicing rights, and for commercial mortgage loans sold to Fannie Mae, the loss share guarantee. See Note 14, "Guarantees," for further discussion of the Company's loss share guarantee. When determining whether to consolidate the VIE, the Company evaluates whether it is a primary beneficiary which has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE, and (ii) the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.

To determine whether a transfer should be accounted for as a sale or a secured borrowing, the Company evaluates whether: (i) the transferred assets are legally isolated, (ii) the transferee has the right to pledge or exchange the transferred assets, and (iii) the Company has relinquished effective control of the transferred assets. If all three conditions are met, then the transfer is accounted for as a sale.

Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. No events occurred during the nine months ended September 30, 2018 that changed the Company's previous conclusions regarding whether it is the primary beneficiary of the VIEs described herein. Furthermore, no events occurred during the nine months ended September 30, 2018 that changed the Company's sale conclusion with regards to previously transferred residential mortgage loans, guaranteed student loans, or commercial loans.

Transfers of Financial Assets

The following discussion summarizes transfers of financial assets to entities for which the Company has retained some level of continuing involvement.

Consumer Loans**Residential Mortgage Loans**

The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions, whereby the loans are exchanged for cash or securities that are readily redeemable for cash, and servicing rights are retained.

The Company sold residential mortgage loans to Ginnie Mae, Fannie Mae, and Freddie Mac, which resulted in pre-tax net gains of \$46 million and \$53 million for the three and nine

months ended September 30, 2018, and pre-tax net gains of \$73 million and \$152 million for the three and nine months ended September 30, 2017, respectively. Net gains/losses on the sale of residential mortgage LHFS are recorded at inception of the associated IRLCs and reflect the change in value of the loans resulting from changes in interest rates from the time the Company enters into the related IRLCs with borrowers until the loans are sold, but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 15, "Derivative Financial Instruments," for further discussion of the Company's hedging activities. The Company has made certain representations and warranties with respect to the transfer of these loans. See Note 14, "Guarantees," for additional information regarding representations and warranties.

In a limited number of securitizations, the Company has received securities in addition to cash in exchange for the transferred loans, while also retaining servicing rights. The securities received are measured at fair value and classified as securities AFS. During the second quarter of 2018, the Company sold the majority of these securities for a net gain of \$6 million, recognized in Net securities gains on the Consolidated Statements of Income for the nine months ended

September 30, 2018. The fair value of retained securities was immaterial at September 30, 2018 and totaled \$22 million at December 31, 2017.

The Company evaluates securitization entities in which it has a VI for potential consolidation under the VIE consolidation model. Notwithstanding the Company's role as servicer, the Company typically does not have power over the securitization entities as a result of rights held by the master servicer. In certain transactions, the Company does have power as the servicer, but does not have an obligation to absorb losses, or the right to receive benefits, that could potentially be significant. In all such cases, the Company does not consolidate the securitization entity. Due to the aforementioned sale of securities AFS in the second quarter of 2018, the Company's remaining VI in the securitization entity was immaterial at September 30, 2018. Assets of the unconsolidated entities in which the Company has a VI totaled \$147 million at December 31, 2017.

The Company's maximum exposure to loss related to these unconsolidated residential mortgage loan securitizations is comprised of the loss of value of any interests it retains, which was immaterial at September 30, 2018 and totaled \$22 million at December 31, 2017, as well as any repurchase obligations or other losses it incurs as a result of any guarantees related to these securitizations, which is discussed further in Note 14, "Guarantees."

Guaranteed Student Loans

The Company has securitized government-guaranteed student loans through a transfer of loans to a securitization entity and retained the residual interest in the entity. The Company concluded that this entity should be consolidated because the Company has (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) the obligation to absorb losses, and the right to receive benefits, that could potentially be significant. At September 30, 2018 and December 31, 2017, the Company's Consolidated

Notes to Consolidated Financial Statements (Unaudited), continued

Balance Sheets reflected \$171 million and \$192 million of assets held by the securitization entity and \$168 million and \$189 million of debt issued by the entity, respectively, inclusive of related accrued interest.

To the extent that the securitization entity incurs losses on its assets, the securitization entity has recourse to the guarantor of the underlying loan, which is backed by the Department of Education up to a maximum guarantee of 98%, or in the event of death, disability, or bankruptcy, 100%. When not fully guaranteed, losses reduce the amount of available cash payable to the Company as the owner of the residual interest. To the extent that losses result from a breach of servicing responsibilities, the Company, which functions as the master servicer, may be required to repurchase the defaulted loan(s) at par value. If the breach was caused by the subservicer, the Company would seek reimbursement from the subservicer up to the guaranteed amount. The Company's maximum exposure to loss related to the securitization entity would arise from a breach of its servicing responsibilities. To date, loss claims filed with the guarantor that have been denied due to servicing errors have either been, or are in the process of being cured, or reimbursement has been

provided to the Company by the subservicer, or in limited cases, absorbed by the Company.

Commercial Loans

The Company originates and sells certain commercial mortgage loans to Fannie Mae and Freddie Mac, originates FHA insured loans, and issues and sells Ginnie Mae commercial MBS secured by FHA insured loans. The Company transferred commercial loans to these Agencies and GSEs, which resulted in pre-tax net gains of \$8 million and \$22 million for the three and nine months ended September 30, 2018, and pre-tax net gains of \$9 million and \$33 million for the three and nine months ended September 30, 2017, respectively. The loans are exchanged for cash or securities that are readily redeemable for cash, with servicing rights retained. The Company has made certain representations and warranties with respect to the transfer of these loans and has entered into a loss share guarantee related to certain loans transferred to Fannie Mae. See Note 14, "Guarantees," for additional information regarding the commercial mortgage loan loss share guarantee.

The Company's total managed loans, including the LHFI portfolio and other transferred loans (securitized and unsecuritized), are presented in the following table by portfolio balance and delinquency status (accruing loans 90 days or more past due and all nonaccrual loans) at September 30, 2018 and December 31, 2017, as well as the related net charge-offs for the three and nine months ended September 30, 2018 and 2017.

	Portfolio Balance		Past Due and Nonaccrual		Net Charge-offs			
					Three Months Ended		Nine Months Ended	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(Dollars in millions)								
LHFI portfolio:								
Commercial	\$77,958	\$75,477	\$310	\$247	\$42	\$22	\$76	\$90
Consumer	69,257	67,704	1,867	1,832	46	56	164	171
Total LHFI portfolio	147,215	143,181	2,177	2,079	88	78	240	261
Managed securitized loans:								
Commercial ¹	6,039	5,760	—	—	—	—	—	—
Consumer	138,747	134,160	226	171	1 ²	3 ²	5 ²	7 ²
Total managed securitized loans	144,786	139,920	226	171	1	3	5	7
Managed unsecuritized loans ³	1,380	2,200	190	340	—	—	—	—
Total managed loans	\$293,381	\$285,301	\$2,593	\$2,590	\$89	\$81	\$245	\$268

¹ Comprised of commercial mortgages sold through Fannie Mae, Freddie Mac, and Ginnie Mae securitizations, whereby servicing has been retained by the Company.

² Amounts associated with \$429 million and \$602 million of managed securitized loans at September 30, 2018 and December 31, 2017, respectively. Net charge-off data is not reported to the Company for the remaining balance of \$138.3 billion and \$133.6 billion of managed securitized loans at September 30, 2018 and December 31, 2017, respectively.

³ Comprised of unsecuritized loans the Company originated and sold to private investors with servicing rights retained. Net charge-offs on these loans are not presented in the table as the data is not reported to the Company by the private investors that own these related loans.

Notes to Consolidated Financial Statements (Unaudited), continued

Other Variable Interest Entities

In addition to exposure to VIEs arising from transfers of financial assets, the Company also has involvement with VIEs from other business activities.

Tax Credit Investments

The following table provides information related to the Company's investments in tax credit VIEs that it does not consolidate:

(Dollars in millions)	Community Development Investments		Renewable Energy Partnerships	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Carrying value of investments ¹	\$1,515	\$1,272	\$68	\$—
Maximum exposure to loss related to investments ²	2,173	1,905	165	—

¹ At September 30, 2018 and December 31, 2017, the carrying value of community development investments excludes \$67 million and \$59 million of investments in funds that do not qualify for tax credits, respectively.

At September 30, 2018 and December 31, 2017, the Company's maximum exposure to loss related to community development investments includes \$484 million and \$354 million of loans and \$648 million and \$627 million of

² unfunded equity commitments, respectively. At September 30, 2018 and December 31, 2017, the Company's maximum exposure to loss related to renewable energy partnerships includes \$97 million and \$0 of unfunded equity commitments, respectively.

Community Development Investments

The Company invests in multi-family affordable housing partnership developments and other community development entities as a limited partner and/or a lender. The carrying value of these investments is recorded in Other assets on the Company's Consolidated Balance Sheets. The Company receives tax credits for its limited partner investments, which are recorded in Provision for income taxes in the Company's Consolidated Statements of Income. Amortization recognized on qualified affordable housing partnerships is recorded in the Provision for income taxes, net of the related tax benefits, in the Company's Consolidated Statements of Income. Amortization recognized on other community development investments is recorded in Amortization in the Company's Consolidated Statements of Income. The Company has determined that the majority of the related partnerships are VIEs.

The Company has concluded that it is not the primary beneficiary of these investments when it invests as a limited partner and there is a third party general partner. The general partner, or an affiliate of the general partner, often provides guarantees to the limited partner, which protects the Company from construction and operating losses and tax credit allocation deficits. The Company's maximum exposure to loss would result from the loss of its limited partner investments, net of liabilities, along with loans or interest rate swap exposures related to these investments as well as unfunded equity commitments that the Company is required to fund if certain conditions are met.

The following table presents tax credits and amortization associated with the Company's investments in community development investments.

(Dollars in millions)	Tax Credits		Amortization	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017

Qualified affordable housing partnerships	\$28	\$27	\$87	\$77	\$29	\$27	\$92	\$76
Other community development investments	23	25	62	60	19	19	49	45

Renewable Energy Partnerships

In the second quarter of 2018, the Company began investing in entities that promote renewable energy sources as a limited partner. The carrying value of these renewable energy partnership investments is recorded in Other assets on the Company's Consolidated Balance Sheets, and the associated tax credits received for these investments are recorded as a reduction to the carrying value of these investments. The Company has determined that these renewable energy tax credit partnerships are VIEs.

The Company has concluded that it is not the primary beneficiary of these VIEs because it does not have the power to direct the activities that most significantly impact the VIEs' financial performance and therefore, it is not required to consolidate these VIEs. The Company's maximum exposure to loss related to these investments is comprised of its equity investments in these partnerships and any additional unfunded equity commitments.

Total Return Swaps

At September 30, 2018 and December 31, 2017, the outstanding notional amount of the Company's VIE-facing TRS contracts totaled \$1.9 billion and \$1.7 billion, and related loans outstanding to VIEs totaled \$1.9 billion and \$1.7 billion, respectively. These financings were measured at fair value and classified within Trading assets and derivative instruments on the Consolidated Balance Sheets. The Company entered into client-facing TRS contracts of the same outstanding notional amounts. The notional amounts of the TRS contracts with VIEs represent the Company's maximum exposure to loss, although this exposure has been mitigated via the TRS contracts with clients. For additional information on the Company's TRS contracts and its involvement with these VIEs, see Note 15, "Derivative Financial Instruments," as well as Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Company's 2017 Annual Report on Form 10-K.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 11 – NET INCOME PER COMMON SHARE

Reconciliations of net income to net income available to common shareholders and average basic common shares outstanding to average diluted common shares outstanding are presented in the following table.

Equivalent shares of less than 1 million related to common stock options and warrants outstanding at September 30, 2017 were excluded from the computations of diluted net income per average common share because they would have been anti-dilutive.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in millions, except per share data)	2018	2017	2018	2017
Net income	\$752	\$538	\$2,117	\$1,533
Less:				
Preferred stock dividends	(26)	(26)	(81)	(65)
Net income available to common shareholders	\$726	\$512	\$2,036	\$1,468
Average common shares outstanding - basic	460.3	478.3	464.8	483.7
Add dilutive securities:				
RSUs	3.0	2.9	2.8	2.9
Common stock warrants, options, and restricted stock	0.9	2.4	1.4	2.6
Average common shares outstanding - diluted	464.2	483.6	469.0	489.2
Net income per average common share - diluted	\$1.56	\$1.06	\$4.34	\$3.00
Net income per average common share - basic	1.58	1.07	4.38	3.04

NOTE 12 - INCOME TAXES

For the three months ended September 30, 2018 and 2017, the provision for income taxes was \$95 million and \$225 million, representing effective tax rates of 11% and 29%, respectively. For the nine months ended September 30, 2018 and 2017, the provision for income taxes was \$412 million and \$606 million, representing effective tax rates of 16% and 28%, respectively. The effective tax rate for the nine months ended September 30, 2018 was favorably impacted by a net \$71 million discrete income tax benefit, while the effective tax rate for the nine months ended September 30, 2017 was favorably impacted by a net \$26 million discrete income tax benefit related primarily to share-based compensation.

The \$71 million net discrete income tax benefit for the nine months ended September 30, 2018 was driven by a \$55 million tax benefit for the income tax effects of the 2017 Tax Act, a \$22 million tax benefit for share-based compensation, and an \$8 million tax benefit related to the release of certain UTBs due to the expiration of the applicable statute of limitation. These income tax benefits were offset partially by a \$14 million discrete tax expense resulting from the merger of the Company's STM and Bank legal entities, which includes the \$35 million discrete tax expense in the first quarter of 2018 related to the increase in the valuation allowance recorded for STM's state carryforwards and a \$21 million discrete tax benefit in the third quarter of 2018 related to the net adjustment of STM's state DTAs and DTLs upon completion of the merger. The \$55 million adjustment for

the income tax effects of the 2017 Tax Act reflects the final adjustment to the Company's December 31, 2017 DTAs and DTLs at the reduced federal corporate income tax rate of 21%. This adjustment completed the Company's accounting for the income tax effects of the 2017 Tax Act.

At September 30, 2018 and December 31, 2017, the Company had a valuation allowance against its state carryforwards and certain state DTAs of \$89 million and \$143 million, respectively. This decrease in the valuation

allowance was due primarily to the reversal of the valuation allowance that was recorded against certain of STM's pre-merger state NOL carryforwards that could not be carried forward by the Bank after the merger. The reversal of the valuation allowance was offset by the write-off of the related state NOL carryforwards. See Note 18, "Business Segment Reporting," for additional information regarding the merger of STM and the Bank.

The provision for income taxes includes both federal and state income taxes and differs from the provision using statutory rates due primarily to favorable permanent tax items such as interest income from lending to tax-exempt entities, tax credits, and amortization expense related to qualified affordable housing investment costs. The Company calculated the provision for income taxes by applying the estimated annual effective tax rate to year-to-date pre-tax income and adjusting for discrete items that occurred during the period.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 13 - EMPLOYEE BENEFIT PLANS

The Company sponsors various compensation and benefit programs to attract and retain talent. Aligned with a pay for performance culture, the Company's plans and programs include short-term incentives, AIP, and various LTI plans. See Note 15,

"Employee Benefit Plans," to the Company's 2017 Annual Report on Form 10-K for additional information regarding the Company's employee benefit plans.

Stock-based compensation expense recognized in Employee compensation in the Consolidated Statements of Income consisted of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
RSUs	\$21	\$14	\$82	\$64
Phantom stock units ¹	10	17	36	57
Total stock-based compensation expense	\$31	\$31	\$118	\$121

Stock-based compensation tax benefit ² \$8 \$12 \$28 \$46

¹ Phantom stock units are settled in cash. During the three and nine months ended September 30, 2018, the Company paid \$1 million and \$76 million, respectively, related to these share-based liabilities. During the three and nine months ended September 30, 2017, the Company paid \$2 million and \$79 million, respectively, related to these share-based liabilities.

² Does not include excess tax benefits or deficiencies recognized in the Provision for income taxes in the Consolidated Statements of Income.

Components of net periodic benefit related to the Company's pension and other postretirement benefits plans are presented in the following table and are recognized in Employee benefits in the Consolidated Statements of Income:

	Pension Benefits ¹				Other Postretirement Benefits			
	Three Months Ended September 30		Nine Months Ended September 30		Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017	2018	2017	2018	2017
Service cost	\$1	\$1	\$4	\$4	\$—	\$—	\$—	\$—
Interest cost	23	24	68	71	—	—	1	1
Expected return on plan assets	(47)	(49)	(140)	(146)	(1)	(1)	(4)	(4)
Amortization of prior service credit	—	—	—	—	(2)	(1)	(5)	(4)
Amortization of actuarial loss	6	6	17	18	—	—	—	—
Net periodic benefit	(\$17)	(\$18)	(\$51)	(\$53)	(\$3)	(\$2)	(\$8)	(\$7)

¹ Administrative fees are recognized in service cost for each of the periods presented.

In the second quarter of 2017, the Company amended its NCF Retirement Plan in accordance with its decision to terminate the pension plan effective as of July 31, 2017. The Company expects

to reclassify approximately \$61 million of pre-tax deferred losses from AOCI into net income upon settlement of the NCF pension plan, which is on schedule to be completed by the end of 2018.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 14 – GUARANTEES

The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform and make future payments should certain triggering events occur. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or through provision of the Company's services. The following is a discussion of the guarantees that the Company has issued at September 30, 2018. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivative instruments as discussed in Note 15, "Derivative Financial Instruments."

Letters of Credit

Letters of credit are conditional commitments issued by the Company, generally to guarantee the performance of a client to a third party in borrowing arrangements, such as CP, bond financing, or similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients but may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as financial standby, performance standby, or commercial letters of credit; however, commercial letters of credit are considered guarantees of funding and are not subject to the disclosure requirements of guarantee obligations.

At September 30, 2018 and December 31, 2017, the maximum potential exposure to loss related to the Company's issued letters of credit was \$3.1 billion and \$2.6 billion, respectively. The Company's outstanding letters of credit generally have a term of more than one year. Some standby letters of credit are designed to be drawn upon in the normal course of business and others are drawn upon only in circumstances of dispute or default in the underlying transaction to which the Company is not a party. In all cases, the Company is entitled to reimbursement from the client. If a letter of credit is drawn upon and reimbursement is not provided by the client, the Company may take possession of the collateral securing the letter of credit, where applicable.

The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with its credit policies. Consistent with the methodologies used for all commercial borrowers, an internal assessment of the PD and loss severity in the event of default is performed. The Company's credit risk management for letters of credit leverages the risk rating process to focus greater visibility on higher risk and higher dollar letters of credit. The allowance associated with letters of credit is a component of the unfunded commitments reserve recorded in Other liabilities on the Consolidated Balance Sheets and is included in the allowance for credit losses as disclosed in Note 7, "Allowance for Credit Losses." Additionally, unearned fees relating to letters of credit are recorded in Other liabilities on the Consolidated Balance Sheets. The net carrying amount of unearned fees was immaterial at both September 30, 2018 and December 31, 2017.

Loan Sales and Servicing

The Company originates and purchases residential mortgage loans, a portion of which are sold to outside investors in the normal course of business through a combination of whole loan sales to GSEs, Ginnie Mae, and non-agency investors. The Company also originates and sells certain commercial mortgage loans to Fannie Mae and Freddie Mac, originates FHA insured loans, and issues and sells Ginnie Mae commercial MBS secured by FHA insured loans. When loans are sold, representations and warranties regarding certain attributes of the loans are made to third party purchasers. Subsequent to the sale, if a material underwriting deficiency or documentation defect is discovered, the Company may be obligated to repurchase the loan or to reimburse an investor for losses incurred (make whole requests), if such deficiency or defect cannot be cured by the Company within the specified period following discovery. These representations and warranties may extend through the life of the loan. In addition to representations and warranties related to loan sales, the Company makes representations and warranties that it will service the loans in accordance with investor servicing guidelines and standards, which may include (i) collection and remittance of principal and interest, (ii) administration of escrow for taxes and insurance, (iii) advancing principal, interest, taxes, insurance, and collection expenses on delinquent accounts, and (iv) loss mitigation strategies, including loan

modifications and foreclosures.

The following table summarizes the changes in the Company's reserve for residential mortgage loan repurchases:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Balance, beginning of period	\$36	\$40	\$39	\$40
Repurchase provision/(benefit)	1	—	(2)	—
Charge-offs, net of recoveries	(1)	(1)	(1)	(1)
Balance, end of period	\$36	\$39	\$36	\$39

A significant degree of judgment is used to estimate the mortgage repurchase liability as the estimation process is inherently uncertain and subject to imprecision. The Company believes that its reserve appropriately estimates incurred losses based on its current analysis and assumptions. While the mortgage repurchase reserve includes the estimated cost of settling claims related to required repurchases, the Company's estimate of losses depends on its assumptions regarding GSE and other counterparty behavior, loan performance, home prices, and other factors. The liability is recorded in Other liabilities on the Consolidated Balance Sheets, and the related repurchase provision/(benefit) is recognized in Mortgage production related income in the Consolidated Statements of Income. See Note 17, "Contingencies," for additional information on current legal matters related to loan sales.

Notes to Consolidated Financial Statements (Unaudited), continued

The following table summarizes the carrying value of the Company's outstanding repurchased residential mortgage loans:

(Dollars in millions)	September 30, 2018	December 31, 2017
Outstanding repurchased residential mortgage loans:		
Performing LHFI	\$189	\$203
Nonperforming LHFI	17	16
Total carrying value of outstanding repurchased residential mortgages	\$206	\$219

Residential mortgage loans sold to Ginnie Mae are insured by the FHA or are guaranteed by the VA. As servicer, the Company may elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. The Company may also indemnify the FHA and VA for losses related to loans not originated in accordance with their guidelines.

Commercial Mortgage Loan Loss Share Guarantee

In connection with the acquisition of Pillar, the Company assumed a loss share obligation associated with the terms of a master loss sharing agreement with Fannie Mae for multi-family commercial mortgage loans that were sold by Pillar to Fannie Mae under Fannie Mae's delegated underwriting and servicing program. Upon the acquisition of Pillar, the Company entered into a lender contract amendment with Fannie Mae for multi-family commercial mortgage loans that Pillar sold to Fannie Mae prior to acquisition and that the Company sold to Fannie Mae subsequent to acquisition, whereby the Company bears a risk of loss of up to one-third of the incurred losses resulting from borrower defaults.

The breach of any representation or warranty related to a loan sold to Fannie Mae could increase the Company's level of risk-sharing associated with the loan. The outstanding UPB of loans sold subject to the loss share guarantee was \$3.4 billion at both September 30, 2018 and December 31, 2017. The maximum potential exposure to loss was \$978 million and \$962 million at September 30, 2018 and December 31, 2017, respectively. Using probability of default and severity of loss estimates, the Company's loss share liability was \$12 million and \$11 million at September 30, 2018 and December 31, 2017, respectively, and is recorded in Other liabilities on the Consolidated Balance Sheets.

Visa

The Company executes credit and debit transactions through Visa and Mastercard. The Company is a defendant, along with Visa and Mastercard (the "Card Associations"), as well as other banks, in one of several antitrust lawsuits challenging the practices of the Card Associations (the "Litigation"). The Company entered into judgment and loss sharing agreements with Visa and certain other banks in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the Litigation. Additionally, in connection with Visa's restructuring in 2007, shares of Visa common stock were issued to its financial institution members and the Company received its proportionate number of shares of Visa Inc. common stock, which were subsequently converted to Class B shares of Visa Inc. upon completion of Visa's IPO in 2008. A provision of the original Visa By-Laws, which was

restated in Visa's certificate of incorporation, contains a general indemnification provision between a Visa member and Visa that explicitly provides that each member's indemnification obligation is limited to losses arising from its own conduct and the specifically defined Litigation. While the district court approved a class action settlement of the Litigation in 2012 that settled the claims of both a damages class and an injunctive relief class, the U.S. Court of Appeals for the Second Circuit reversed the district court's approval of the settlement on June 30, 2016. The U.S. Supreme Court denied plaintiffs' petition for certiorari on March 27, 2017, and the case returned to the district court for further action. Since being remanded to the district court, plaintiffs have pursued two separate class actions—one class action seeking damages that names, among others, the Company as a defendant, and one class action seeking injunctive relief that does not name the Company as a defendant, but for which the Company could bear some responsibility under the judgment and loss sharing agreement described above. An agreement to resolve the claims of the damages class has been filed with the district court and is awaiting court approval.

Agreements associated with Visa's IPO have provisions that Visa will fund a litigation escrow account, established for the purpose of funding judgments in, or settlements of, the Litigation. If the escrow account is insufficient to cover the Litigation losses, then Visa will issue additional Class A shares ("loss shares"). The proceeds from the sale of the loss shares would then be deposited in the escrow account. The issuance of the loss shares will cause a dilution of Visa's Class B shares as a result of an adjustment to lower the conversion factor of the Class B shares to Class A shares. Visa U.S.A.'s members are responsible for any portion of the settlement or loss on the Litigation after the escrow account is depleted and the value of the Class B shares is fully diluted.

In May 2009, the Company sold its 3.2 million Class B shares to the Visa Counterparty and entered into a derivative with the Visa Counterparty. Under the derivative, the Visa Counterparty is compensated by the Company for any decline in the conversion factor as a result of the outcome of the Litigation. Conversely, the Company is compensated by the Visa Counterparty for any increase in the conversion factor. The amount of payments made or received under the derivative is a function of the 3.2 million shares sold to the Visa Counterparty, the change in conversion rate, and Visa's share price. The Visa Counterparty, as a result of its ownership of the Class B shares, is impacted by dilutive adjustments to the conversion factor of the Class B shares caused by the Litigation losses. Additionally, the Company will make periodic payments based on the notional of the derivative and a fixed rate until the date on which the Litigation is settled. The fair value of the derivative is estimated based on unobservable inputs consisting of management's estimate of the probability of certain litigation scenarios and the timing of the resolution of the Litigation due in large part to the aforementioned decision by the U.S. Court of Appeals for the Second Circuit. The fair value of the derivative liability was \$7 million and \$15 million at September 30, 2018 and December 31, 2017, respectively. The fair value of the derivative is estimated based on the Company's expectations regarding the resolution of the Litigation. The ultimate impact to the Company could be significantly different based on the Litigation outcome.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into various derivative financial instruments, both in a dealer capacity to facilitate client transactions and as an end user as a risk management tool. The Company generally manages the risk associated with these derivatives within the established MRM and credit risk management frameworks. Derivatives may be used by the Company to hedge various economic or client-related exposures. In such instances, derivative positions are typically monitored using a VAR methodology, with exposures reviewed daily. Derivatives are also used as a risk management tool to hedge the Company's balance sheet exposure to changes in identified cash flow and fair value risks, either economically or in accordance with hedge accounting provisions. The Company's Corporate Treasury function is responsible for employing the various hedge strategies to manage these objectives. The Company enters into IRLCs on residential and commercial mortgage loans that are accounted for as freestanding derivatives. Additionally, certain contracts containing embedded derivatives are measured, in their entirety, at fair value. All derivatives, including both freestanding as well as any embedded derivatives that the Company bifurcates from the host contracts, are measured at fair value in the Consolidated Balance Sheets in Trading assets and derivative instruments and Trading liabilities and derivative instruments. The associated gains and losses are either recognized in AOCI, net of tax, or within the Consolidated Statements of Income, depending upon the use and designation of the derivatives.

Credit and Market Risk Associated with Derivative Instruments

Derivatives expose the Company to risk that the counterparty to the derivative contract does not perform as expected. The Company manages its exposure to counterparty credit risk associated with derivatives by entering into transactions with counterparties with defined exposure limits based on their credit quality and in accordance with established policies and procedures. All counterparties are reviewed regularly as part of the Company's credit risk management practices and appropriate action is taken to adjust the exposure limits to certain counterparties as necessary. The Company's derivative transactions are generally governed by ISDA agreements or other legally enforceable industry standard master netting agreements. In certain cases and depending on the nature of the underlying derivative transactions, bilateral collateral agreements are also utilized. Furthermore, the Company and its subsidiaries are subject to OTC derivative clearing requirements, which require certain derivatives to be cleared through central clearing houses, such as LCH and the CME. These clearing houses require the Company to post initial and variation margin to mitigate the risk of non-payment, the latter of which is received or paid daily based on the net asset or liability position of the contracts. Effective January 3, 2017, the CME amended its rulebook to legally characterize variation margin cash payments for cleared OTC derivatives as settlement rather than as collateral. Consistent with the CME's amended requirements, LCH amended its rulebook effective January 16, 2018, to legally characterize variation margin cash payments for cleared OTC derivatives as settlement rather than as collateral. As a result, in the first quarter of 2018, the Company began reducing the corresponding derivative asset and liability balances for LCH-

cleared OTC derivatives to reflect the settlement of those positions via the exchange of variation margin.

When the Company has more than one outstanding derivative transaction with a single counterparty, and there exists a legal right of offset with that counterparty, the Company considers its exposure to the counterparty to be the net fair value of its derivative positions with that counterparty. If the net fair value is positive, then the corresponding asset value also reflects cash collateral held. At September 30, 2018, the economic exposure of these net derivative asset positions was \$404 million, reflecting \$889 million of net derivative gains, adjusted for cash and other collateral of \$485 million that the Company held in relation to these positions. At December 31, 2017, the economic exposure of net derivative asset positions was \$541 million, reflecting \$940 million of net derivative gains, adjusted for cash and other collateral held of \$399 million.

Derivatives also expose the Company to market risk arising from the adverse effects that changes in market factors, such as interest rates, currency rates, equity prices, commodity prices, or implied volatility, may have on the value of

the Company's derivatives. The Company manages this risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company measures its market risk exposure using a VAR methodology for derivatives designated as trading instruments. Other tools and risk measures are also used to actively manage risk associated with derivatives including scenario analysis and stress testing.

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

For purposes of estimating the Company's own credit risk on derivative liability positions, the DVA, the Company uses probabilities of default from observable, sector/rating based CDS data. The net fair value of the Company's derivative contracts were adjusted by an immaterial amount for estimates of counterparty credit risk and its own credit risk at both September 30, 2018 and December 31, 2017. For additional information on the Company's fair value measurements, see Note 16, "Fair Value Election and Measurement."

Currently, the industry standard master netting agreements governing the majority of the Company's derivative transactions with counterparties contain bilateral events of default and acceleration provisions related to the creditworthiness of the Bank and the counterparty. Should the Bank be in default under any of these provisions, the Bank's counterparties would be

Notes to Consolidated Financial Statements (Unaudited), continued

permitted to close out transactions with the Bank on a net basis, at amounts that would approximate the fair values of the derivatives, resulting in a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. Additionally, certain of the Company's derivative liability positions, totaling \$1.0 billion and \$1.1 billion in fair value at September 30, 2018 and December 31, 2017, respectively, contain provisions conditioned on downgrades of the Bank's credit rating. These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral.

At September 30, 2018, the Bank held senior long-term debt credit ratings of Baa1/A-/A- from Moody's, S&P, and Fitch, respectively. At September 30, 2018, ATEs have been triggered for less than \$1 million in fair value liabilities. The maximum additional liability that could be triggered from ATEs was approximately \$18 million at September 30, 2018. At September 30, 2018, \$1.0 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted \$918 million in collateral, primarily in the form of cash.

Pursuant to the terms of the CSA, the Bank would be required to post additional collateral of approximately \$2 million against these contracts if the Bank were downgraded to Baa2/BBB+. Further downgrades to Baa3/BBB and Ba1/BBB- would require the Bank to post an additional \$3 million and \$2 million of collateral, respectively. Any downgrades below Ba2/BB+ do not contain predetermined collateral posting levels.

Notional and Fair Value of Derivative Positions

The following table presents the Company's derivative positions at September 30, 2018 and December 31, 2017. The notional amounts in the table are presented on a gross basis at September 30, 2018 and December 31, 2017. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements, including collateral arrangements. Net fair value derivative amounts are adjusted on an aggregate basis, where applicable, to take into consideration the effects of legally enforceable master netting agreements, including any cash collateral received or paid, and are recognized in Trading assets and derivative instruments or Trading liabilities and derivative instruments on the Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	September 30, 2018			December 31, 2017		
	Fair Value			Fair Value		
	Notional Amounts	Asset Derivatives	Liability Derivatives	Notional Amounts	Asset Derivatives	Liability Derivatives
Derivative instruments designated in hedging relationships						
Cash flow hedges: ¹						
Interest rate contracts hedging floating rate LHFI	\$12,900	\$2	\$1	\$14,200	\$2	\$252
Subtotal	12,900	2	1	14,200	2	252
Fair value hedges: ²						
Interest rate contracts hedging fixed rate debt	7,705	2	—	5,920	1	58
Interest rate contracts hedging brokered time deposits	60	—	—	60	—	—
Subtotal	7,765	2	—	5,980	1	58
Derivative instruments not designated as hedging instruments ³						
Interest rate contracts hedging:						
Residential MSR ^s ⁴	25,690	18	20	42,021	119	119
LHFS, IRLC ^s ⁵	5,485	15	4	7,590	9	6
LHFI	183	—	—	175	2	2
Trading activity ⁶	127,059	595	894	126,366	1,066	946
Foreign exchange rate contracts hedging loans and trading activity	7,418	106	91	7,058	110	102
Credit contracts hedging:						
LHFI	825	—	23	515	—	11
Trading activity ⁷	3,869	25	23	3,454	15	12
Equity contracts hedging trading activity ⁶	37,362	2,384	2,648	38,907	2,499	2,857
Other contracts:						
IRLC ^s and other ⁸	1,886	13	9	2,017	18	16
Commodity derivatives	1,678	118	116	1,422	63	61
Subtotal	211,455	3,274	3,828	229,525	3,901	4,132
Total derivative instruments	\$232,120	\$3,278	\$3,829	\$249,705	\$3,904	\$4,442
Total gross derivative instruments (before netting)		\$3,278	\$3,829		\$3,904	\$4,442
Less: Legally enforceable master netting agreements		(2,185)	(2,185)		(2,731)	(2,731)
Less: Cash collateral received/paid		(471)	(946)		(371)	(1,303)
Total derivative instruments (after netting)		\$622	\$698		\$802	\$408

¹ See "Cash Flow Hedging" in this Note for further discussion.

² See "Fair Value Hedging" in this Note for further discussion.

³ See "Economic Hedging Instruments and Trading Activities" in this Note for further discussion.

Notional amounts include \$5.6 billion and \$16.6 billion related to interest rate futures at September 30, 2018 and

⁴ December 31, 2017, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.

Notional amounts include \$302 million and \$190 million related to interest rate futures at September 30, 2018 and

⁵ December 31, 2017, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.

Notional amounts include \$4.9 billion and \$9.8 billion related to interest rate futures at September 30, 2018 and December 31, 2017, and \$274 million and \$1.2 billion related to equity futures at September 30, 2018 and December 31, 2017, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table. Notional amounts also include amounts related to interest rate swaps hedging fixed rate debt.

Notional amounts include \$7 million and \$4 million from purchased credit risk participation agreements at September 30, 2018 and December 31, 2017, and \$33 million and \$11 million from written credit risk participation agreements at September 30, 2018 and December 31, 2017, respectively. These notional amounts are calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.

Notional amounts include \$41 million and \$49 million related to the Visa derivative liability at September 30, 2018 and December 31, 2017, respectively. See Note 14, "Guarantees" for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

Netting of Derivative Instruments

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's securities borrowed or purchased under agreements to resell, and securities sold under agreements to repurchase, that are subject to enforceable master netting agreements or similar agreements, are discussed in Note 3, "Federal Funds Sold and Securities Financing Activities." The Company enters into ISDA or other legally enforceable industry standard master netting agreements with derivative counterparties. Under the terms of the master netting agreements, 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.

The following tables present total gross derivative instrument assets and liabilities at September 30, 2018 and December 31, 2017, which are adjusted to reflect the effects of legally enforceable master netting agreements and cash collateral received or paid when calculating the net amount reported in the Consolidated Balance Sheets. Also included in the tables are financial instrument collateral related to legally enforceable master netting agreements that represents securities collateral received or pledged and customer cash collateral held at third party custodians. These amounts are not offset on the Consolidated Balance Sheets but are shown as a reduction to total derivative instrument assets and liabilities to derive net derivative assets and liabilities. These amounts are limited to the derivative asset/liability balance, and accordingly, do not include excess collateral received/pledged.

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
September 30, 2018					
Derivative instrument assets:					
Derivatives subject to master netting arrangement or similar arrangement	\$2,940	\$2,525	\$415	\$14	\$401
Derivatives not subject to master netting arrangement or similar arrangement	14	—	14	—	14
Exchange traded derivatives	324	131	193	—	193
Total derivative instrument assets	\$3,278	\$2,656	\$622	¹ \$14	\$608
Derivative instrument liabilities:					
Derivatives subject to master netting arrangement or similar arrangement	\$3,587	\$3,000	\$587	\$58	\$529
Derivatives not subject to master netting arrangement or similar arrangement	111	—	111	—	111
Exchange traded derivatives	131	131	—	—	—
Total derivative instrument liabilities	\$3,829	\$3,131	\$698	² \$58	\$640
December 31, 2017					
Derivative instrument assets:					
Derivatives subject to master netting arrangement or similar arrangement	\$3,491	\$2,923	\$568	\$28	\$540
	18	—	18	—	18

Derivatives not subject to master netting arrangement or similar arrangement					
Exchange traded derivatives	395	179	216	—	216
Total derivative instrument assets	\$3,904	\$3,102	\$802	¹ \$28	\$774
Derivative instrument liabilities:					
Derivatives subject to master netting arrangement or similar arrangement	\$4,128	\$3,855	\$273	\$27	\$246
Derivatives not subject to master netting arrangement or similar arrangement	130	—	130	—	130
Exchange traded derivatives	184	179	5	—	5
Total derivative instrument liabilities	\$4,442	\$4,034	\$408	² \$27	\$381

¹ At September 30, 2018, \$622 million, net of \$471 million offsetting cash collateral, is recognized in Trading assets and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2017, \$802 million, net of \$371 million offsetting cash collateral, is recognized in Trading assets and derivative instruments within the Company's Consolidated Balance Sheets.

² At September 30, 2018, \$698 million, net of \$946 million offsetting cash collateral, is recognized in Trading liabilities and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2017, \$408 million, net of \$1.3 billion offsetting cash collateral, is recognized in Trading liabilities and derivative instruments within the Company's Consolidated Balance Sheets.

Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value and Cash Flow Hedging Instruments

Fair Value Hedging

The Company enters into interest rate swap agreements as part of its risk management objectives for hedging exposure to changes in fair value due to changes in interest rates. These hedging arrangements convert certain fixed rate long-term debt and CDs to floating rates. Subsequent to the adoption of ASU 2017-12, changes in the fair value of the hedging instrument attributable to the hedged risk are recognized in the same income statement line as the earnings impact from the hedged item. There were no components of derivative gains or losses excluded in the Company's assessment of hedge effectiveness related to the fair value hedges. For additional information on the Company's adoption of ASU 2017-12 and related policy updates, see Note 1, "Significant Accounting Policies."

Cash Flow Hedging

The Company utilizes a comprehensive risk management strategy to monitor sensitivity of earnings to movements in interest rates. Specific types of funding and principal amounts hedged are determined based on prevailing market conditions and the shape of the yield curve. In conjunction with this strategy, the Company may employ various interest rate derivatives as risk management tools to hedge interest rate risk from recognized assets and liabilities or from forecasted transactions. The terms and notional amounts of derivatives are determined based on management's assessment of future interest rates, as well as other factors.

The Company enters into interest rate swaps designated as cash flow hedging instruments to hedge its exposure to benchmark interest rate risk associated with floating rate loans. For the three and nine months ended September 30, 2018, the amount of pre-tax loss recognized in OCI on derivative instruments was \$48 million and \$274 million, respectively. For the three and nine months ended September 30, 2017, the amount of pre-tax gain recognized in OCI on derivative instruments was \$10 million and \$61 million, respectively. At September 30, 2018, the maturities for hedges of floating rate loans ranged from less than one year to seven years, with the weighted average being 3.1 years. At December 31, 2017, the maturities for hedges of floating rate loans ranged from less than one year to five years, with the weighted average being 3.6 years. These hedges have been highly effective in offsetting the designated risks. At September 30, 2018, \$135 million of deferred net pre-tax losses on derivative instruments designated as cash flow hedges on floating rate loans recognized in AOCI are expected to be reclassified into net interest income during the next twelve months. The amount to be reclassified into income incorporates the impact from both active and terminated cash flow hedges, including the net interest income earned on the active hedges, assuming no changes in LIBOR. The Company may choose to terminate or de-designate a hedging relationship due to a change in the risk management objective for that specific hedge item, which may arise in conjunction with an overall balance sheet management strategy.

Notes to Consolidated Financial Statements (Unaudited), continued

Pursuant to the adoption of ASU 2017-12, the following table presents gains and losses on derivatives in fair value and cash flow hedging relationships by contract type and by income statement line item for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2017 the amounts presented below were not conformed to the new hedge accounting guidance. The table does not disclose the financial impact of the activities that these derivative instruments are intended to hedge.

(Dollars in millions)	Net Interest Income			Noninterest Income	
	Interest and fees on LHFIs	Interest on Long-term Debt	Interest on Deposits	Trading Income	Total
Three Months Ended September 30, 2018					
Interest income/(expense), including the effects of fair value and cash flow hedges	\$1,549	(\$95)	(\$193)	\$42	\$1,303
(Loss)/gain on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$—	(\$2)	\$—	\$—	(\$2)
Recognized on derivatives	—	(33)	—	—	(33)
Recognized on hedged items	—	31	¹ —	—	31
Net expense recognized on fair value hedges	\$—	(\$4)	\$—	\$—	(\$4)
Loss on cash flow hedging relationships:					
Interest rate contracts:					
Amount of pre-tax loss reclassified from AOCI into income	(\$22) ²	\$—	\$—	\$—	(\$22)
Net expense recognized on cash flow hedges	(\$22)	\$—	\$—	\$—	(\$22)
Nine Months Ended September 30, 2018					
Interest income/(expense), including the effects of fair value and cash flow hedges	\$4,424	(\$252)	(\$484)	\$137	\$3,825
(Loss)/gain on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$—	(\$1)	\$—	\$—	(\$1)
Recognized on derivatives	—	(130)	—	—	(130)
Recognized on hedged items	—	124	¹ —	—	124
Net expense recognized on fair value hedges	\$—	(\$7)	\$—	\$—	(\$7)
Loss on cash flow hedging relationships:					
Interest rate contracts:					
Amount of pre-tax loss reclassified from AOCI into income	(\$39) ²	\$—	\$—	\$—	(\$39)
Net expense recognized on cash flow hedges	(\$39)	\$—	\$—	\$—	(\$39)
Three Months Ended September 30, 2017					
Interest income/(expense), including the effects of fair value and cash flow hedges	\$1,382	(\$76)	(\$111)	\$51	\$1,246

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Gain/(loss) on fair value hedging relationships:

Interest rate contracts:

Amounts related to interest settlements on derivatives	\$—	\$3	\$—	\$—	\$3
Recognized on derivatives	—	—	—	(3)	(3)
Recognized on hedged items	—	—	—	3	3
Net income recognized on fair value hedges	\$—	\$3	\$—	\$—	\$3

Gain on cash flow hedging relationships:

Interest rate contracts:

Amount of pre-tax gain reclassified from AOCI into income	\$13	² \$—	\$—	\$—	\$13
Net income recognized on cash flow hedges	\$13	\$—	\$—	\$—	\$13

Nine Months Ended September 30, 2017

Interest income/(expense), including the effects of fair value and cash flow hedges	\$4,009	(\$216)	(\$286)	\$148	\$3,655
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Gain/(loss) on fair value hedging relationships:

Interest rate contracts:

Amounts related to interest settlements on derivatives	\$—	\$12	\$—	\$—	\$12
Recognized on derivatives	—	—	—	5	5
Recognized on hedged items	—	—	—	(4)	(4)
Net income recognized on fair value hedges	\$—	\$12	\$—	\$1	\$13

Gain on cash flow hedging relationships:

Interest rate contracts:

Amount of pre-tax gain reclassified from AOCI into income	\$81	² \$—	\$—	\$—	\$81
Net income recognized on cash flow hedges	\$81	\$—	\$—	\$—	\$81

¹ Includes amortization from de-designated fair value hedging relationships.

² These amounts include pre-tax gains/(losses) related to cash flow hedging relationships that have been terminated and were reclassified into earnings consistent with the pattern of net cash flows expected to be recognized.

Notes to Consolidated Financial Statements (Unaudited), continued

The following table presents the carrying amount of hedged liabilities on the Consolidated Balance Sheets in fair value hedging relationships and the associated cumulative basis adjustment related to the application of hedge accounting:

(Dollars in millions)	Carrying Amount of Hedged Liabilities	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Liabilities		
		Hedged Items Currently Designated	Hedged Items No Longer Designated	No Longer Designated
September 30, 2018				
Long-term debt	\$6,495	(\$170)	(\$73)	
Brokered time deposits	29	—	—	

Economic Hedging Instruments and Trading Activities

In addition to designated hedge accounting relationships, the Company also enters into derivatives as an end user to economically hedge risks associated with certain non-derivative and derivative instruments, along with entering into derivatives in a trading capacity with its clients.

The primary risks that the Company economically hedges are interest rate risk, foreign exchange risk, and credit risk. The Company mitigates these risks by entering into offsetting derivatives either on an individual basis or collectively on a macro basis.

The Company utilizes interest rate derivatives as economic hedges related to:

- Residential MSR. The Company hedges these instruments with a combination of interest rate derivatives, including forward and option contracts, futures, and forward rate agreements.

- Residential mortgage IRLCs and LHFS. The Company hedges these instruments using forward and option contracts, futures, and forward rate agreements.

The Company is exposed to volatility and changes in foreign exchange rates associated with certain commercial loans. To hedge against this foreign exchange rate risk, the Company enters into foreign exchange rate contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

The Company enters into CDS to hedge credit risk associated with certain loans held within its Wholesale segment. The Company accounts for these contracts as derivatives, and accordingly, recognizes these contracts at fair value, with changes in fair value recognized in Other noninterest income in the Consolidated Statements of Income.

Trading activity primarily includes interest rate swaps, equity derivatives, CDS, futures, options, foreign exchange rate contracts, and commodity derivatives. These derivatives are entered into in a dealer capacity to facilitate client transactions, or are utilized as a risk management tool by the Company as an end user (predominantly in certain macro-hedging strategies).

The impacts of derivative instruments used for economic hedging or trading purposes on the Consolidated Statements of Income are presented in the following table:

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	Classification of (Loss)/Gain Recognized in Income on Derivatives	Amount of (Loss)/Gain Recognized in Income on Derivatives During the Three Months Ended September 30	Amount of (Loss)/Gain Recognized in Income on Derivatives During the Nine Months Ended September 30	2018	2017	2018	2017
(Dollars in millions)							
Derivative instruments not designated as hedging instruments:							
Interest rate contracts hedging:							
Residential MSR	Mortgage servicing related income	(\$54)	\$17	(\$210)	\$41		
LHFS, IRLCs	Mortgage production related income	10	(20)	57	(57)		
LHFI	Other noninterest income	1	—	3	(1)		
Trading activity	Trading income	18	11	48	33		
Foreign exchange rate contracts hedging loans and trading activity	Trading income	9	(10)	49	(43)		
Credit contracts hedging:							
LHFI	Other noninterest income	(5)	(1)	(5)	(3)		
Trading activity	Trading income	5	8	16	19		
Equity contracts hedging trading activity	Trading income	6	(1)	8	(1)		
Other contracts:							
IRLCs and other	Mortgage production related income, Commercial real estate related income	19	49	39	154		
Commodity derivatives	Trading income	—	—	—	1		
Total		\$9	\$53	\$5	\$143		

Notes to Consolidated Financial Statements (Unaudited), continued

Credit Derivative Instruments

As part of the Company's trading businesses, the Company enters into contracts that are, in form or substance, written guarantees; specifically, CDS, risk participations, and TRS. The Company accounts for these contracts as derivatives, and accordingly, records these contracts at fair value, with changes in fair value recognized in Trading income in the Consolidated Statements of Income.

At September 30, 2018, there were no purchased CDS contracts designated as trading instruments. At December 31, 2017, the gross notional amount of purchased CDS contracts designated as trading instruments was \$5 million. The fair value of purchased CDS was immaterial at December 31, 2017.

The Company has also entered into TRS contracts on loans. The Company's TRS business consists of matched trades, such that when the Company pays depreciation on one TRS, it receives the same amount on the matched TRS. To mitigate its credit risk, the Company typically receives initial cash collateral from the counterparty upon entering into the TRS and is entitled to additional collateral if the fair value of the underlying reference assets deteriorates. There were \$1.9 billion and \$1.7 billion of outstanding TRS notional balances at September 30, 2018 and December 31, 2017, respectively. The fair values of these TRS assets and liabilities at September 30, 2018 were \$25 million and \$23 million, respectively, and related cash collateral held at September 30, 2018 was \$486 million. The fair values of the TRS assets and liabilities at December 31, 2017 were \$15 million and \$13 million, respectively, and related cash collateral held at December 31, 2017 was \$368 million. For additional information on the Company's TRS contracts, see Note 10, "Certain Transfers of Financial Assets and Variable Interest

Entities," as well as Note 16, "Fair Value Election and Measurement."

The Company writes risk participations, which are credit derivatives, whereby the Company has guaranteed payment to a dealer counterparty in the event the counterparty experiences a loss on a derivative, such as an interest rate swap, due to a failure to pay by the counterparty's customer (the "obligor") on that derivative. The Company manages its payment risk on its risk participations by monitoring the creditworthiness of the obligors, which are all corporations or partnerships, through the normal credit review process that the Company would have performed had it entered into a derivative directly with the obligors. To date, no material losses have been incurred related to the Company's written risk participations. At September 30, 2018, the remaining terms on these risk participations generally ranged from less than one year to 11 years, with a weighted average term on the maximum estimated exposure of 6.4 years. At December 31, 2017, the remaining terms on these risk participations generally ranged from less than one year to nine years, with a weighted average term on the maximum estimated exposure of 5.5 years. The Company's maximum estimated exposure to written risk participations, as measured by projecting a maximum value of the guaranteed derivative instruments based on interest rate curve simulations and assuming 100% default by all obligors on the maximum values, was approximately \$230 million and \$55 million at September 30, 2018 and December 31, 2017, respectively. The fair values of the written risk participations were immaterial at both September 30, 2018 and December 31, 2017.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 16 - FAIR VALUE ELECTION AND MEASUREMENT

The Company measures certain assets and liabilities at fair value, which are classified as level 1, 2, or 3 within the fair value hierarchy, as shown below, on the basis of whether the measurement employs observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's own assumptions, taking into account information about market participant assumptions that is readily available.

Level 1: Quoted prices for identical instruments in active markets

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company's recurring fair value measurements are based on either a requirement to measure such assets and liabilities at fair value or on the Company's election to measure certain financial assets and liabilities at fair value. Assets and liabilities that are required to be measured at fair value on a recurring basis include trading securities, securities AFS, and derivative financial instruments. Assets and liabilities that the Company has elected to measure at fair value on a recurring basis include its residential MSRs, trading loans, and certain LHFS, LHFI, brokered time deposits, and long-term debt issuances.

The Company elects to measure certain assets and liabilities at fair value to better align its financial performance with the economic value of actively traded or hedged assets or liabilities. The use of fair value also enables the Company to mitigate non-economic earnings volatility caused from financial assets and liabilities being measured using different bases of accounting, as well as to more accurately portray the active and dynamic management of the Company's balance sheet.

The Company uses various valuation techniques and assumptions in estimating fair value. The assumptions used to estimate the value of an instrument have varying degrees of

impact to the overall fair value of an asset or liability. This process involves gathering multiple sources of information, including broker quotes, values provided by pricing services, trading activity in other identical or similar securities, market indices, and pricing matrices. When observable market prices for the asset or liability are not available, the Company employs various modeling techniques, such as discounted cash flow analyses, to estimate fair value. Models used to produce material financial reporting information are validated prior to use and following any material change in methodology. Their performance is monitored at least quarterly, and any material deterioration in model performance is escalated.

The Company has formal processes and controls in place to support the appropriateness of its fair value estimates. For fair values obtained from a third party, or those that include certain trader estimates of fair value, there is an independent price validation function that provides oversight for these estimates. For level 2 instruments and certain level 3 instruments, the validation generally involves evaluating pricing received from two or more third party pricing sources that are widely used by market participants. The Company evaluates this pricing information from both a qualitative and quantitative perspective and determines whether any pricing differences exceed acceptable thresholds. If thresholds are exceeded, the Company assesses differences in valuation approaches used, which may include contacting a pricing service to gain further insight into the valuation of a particular security or class of securities to resolve the pricing variance, which could include an adjustment to the price used for financial reporting purposes. The Company classifies instruments within level 2 in the fair value hierarchy when it determines that external pricing sources estimated fair value using prices for similar instruments trading in active markets. A wide range of quoted values from pricing sources may imply a reduced level of market activity and indicate that significant adjustments to

price indications have been made. In such cases, the Company evaluates whether the asset or liability should be classified as level 3.

Determining whether to classify an instrument as level 3 involves judgment and is based on a variety of subjective factors, including whether a market is inactive. A market is considered inactive if significant decreases in the volume and level of activity for the asset or liability have been observed.

Notes to Consolidated Financial Statements (Unaudited), continued

Recurring Fair Value Measurements

The following tables present certain information regarding assets and liabilities measured at fair value on a recurring basis and the changes in fair value for those specific financial instruments for which fair value has been elected.

(Dollars in millions)	September 30, 2018				
	Fair Value Measurements				
	Level 1	Level 2	Level 3	Netting Adjustments ¹	Assets/Liabilities at Fair Value
Assets					
Trading assets and derivative instruments:					
U.S. Treasury securities	\$247	\$—	\$—	\$—	\$247
Federal agency securities	—	507	—	—	507
U.S. states and political subdivisions	—	91	—	—	91
MBS - agency	—	743	—	—	743
Corporate and other debt securities	—	820	—	—	820
CP	—	408	—	—	408
Equity securities	67	—	—	—	67
Derivative instruments	324	2,942	12	(2,656)	622
Trading loans	—	2,171	—	—	2,171
Total trading assets and derivative instruments	638	7,682	12	(2,656)	5,676
Securities AFS:					
U.S. Treasury securities	4,133	—	—	—	4,133
Federal agency securities	—	223	—	—	223
U.S. states and political subdivisions	—	602	—	—	602
MBS - agency residential	—	22,505	—	—	22,505
MBS - agency commercial	—	2,602	—	—	2,602
MBS - non-agency commercial	—	905	—	—	905
Corporate and other debt securities	—	14	—	—	14
Total securities AFS ²	4,133	26,851	—	—	30,984
LHFS	—	1,822	—	—	1,822
LHFI	—	—	168	—	168
Residential MSRs	—	—	2,062	—	2,062
Other assets ²	92	—	—	—	92
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	742	—	—	—	742
Corporate and other debt securities	—	411	—	—	411
Equity securities	12	—	—	—	12
Derivative instruments	132	3,688	9	(3,131)	698
Total trading liabilities and derivative instruments	886	4,099	9	(3,131)	1,863
Brokered time deposits	—	384	—	—	384
Long-term debt	—	235	—	—	235

¹ Amounts represent offsetting cash collateral received from, and paid to, the same derivative counterparties, and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists. See Note 15, "Derivative Financial Instruments," for additional information.

² Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability. See Note 9, "Other Assets," for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	December 31, 2017				
	Fair Value Measurements				
	Level 1	Level 2	Level 3	Netting Adjustments ¹	Assets/Liabilities at Fair Value
Assets					
Trading assets and derivative instruments:					
U.S. Treasury securities	\$157	\$—	\$—	\$—	\$157
Federal agency securities	—	395	—	—	395
U.S. states and political subdivisions	—	61	—	—	61
MBS - agency	—	700	—	—	700
Corporate and other debt securities	—	655	—	—	655
CP	—	118	—	—	118
Equity securities	56	—	—	—	56
Derivative instruments	395	3,493	16	(3,102)	802
Trading loans	—	2,149	—	—	2,149
Total trading assets and derivative instruments	608	7,571	16	(3,102)	5,093
Securities AFS:					
U.S. Treasury securities	4,331	—	—	—	4,331
Federal agency securities	—	259	—	—	259
U.S. states and political subdivisions	—	617	—	—	617
MBS - agency residential	—	22,704	—	—	22,704
MBS - agency commercial	—	2,086	—	—	2,086
MBS - non-agency residential	—	—	59	—	59
MBS - non-agency commercial	—	866	—	—	866
ABS	—	—	8	—	8
Corporate and other debt securities	—	12	5	—	17
Total securities AFS ²	4,331	26,544	72	—	30,947
LHFS	—	1,577	—	—	1,577
LHFI	—	—	196	—	196
Residential MSRs	—	—	1,710	—	1,710
Other assets ²	56	—	—	—	56
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	577	—	—	—	577
Corporate and other debt securities	—	289	—	—	289
Equity securities	9	—	—	—	9
Derivative instruments	183	4,243	16	(4,034)	408
Total trading liabilities and derivative instruments	769	4,532	16	(4,034)	1,283

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Brokered time deposits	—	236	—	—	236
Long-term debt	—	530	—	—	530

¹ Amounts represent offsetting cash collateral received from, and paid to, the same derivative counterparties, and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists. See Note 15, "Derivative Financial Instruments," for additional information.

² Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability. See Note 9, "Other Assets," for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present the difference between fair value and the aggregate UPB for which the FVO has been elected for certain trading loans, LHFS, LHFI, brokered time deposits, and long-term debt instruments.

(Dollars in millions)	Fair Value at September 30, 2018	Aggregate UPB at September 30, 2018	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	\$2,171	\$2,160	\$11
LHFS:			
Accruing	1,822	1,775	47
LHFI:			
Accruing	162	171	(9)
Nonaccrual	6	8	(2)
Liabilities:			
Brokered time deposits	384	379	5
Long-term debt	235	230	5

(Dollars in millions)	Fair Value at December 31, 2017	Aggregate UPB at December 31, 2017	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	\$2,149	\$2,111	\$38
LHFS:			
Accruing	1,576	1,533	43
Past due 90 days or more	1	1	—
LHFI:			
Accruing	192	198	(6)
Nonaccrual	4	6	(2)
Liabilities:			
Brokered time deposits	236	233	3
Long-term debt	530	517	13

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Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present the changes in fair value of financial instruments for which the FVO has been elected. The tables do not reflect the change in fair value attributable to related economic hedges that the Company uses to mitigate market-related risks associated with the financial instruments. Generally, changes in the fair value of economic hedges are recognized in Trading income, Mortgage production related income, Mortgage

servicing related income, Commercial real estate related income, or Other noninterest income as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company's economic hedging activities are deployed at both the instrument and portfolio level.

(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2018 for Items Measured at Fair Value Pursuant to Election of the FVO					Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2018 for Items Measured at Fair Value Pursuant to Election of the FVO				
	Trading Income	Mortgage Production Related Income ¹	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings ²	Trading Income	Mortgage Production Related Income ¹	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings ²
Assets:										
Trading loans	\$3	\$—	\$—	\$—	\$3	\$10	\$—	\$—	\$—	\$10
LHFS	—	5	—	—	5	—	(3)	—	—	(3)
LHFI	—	—	—	(1)	(1)	—	—	—	(4)	(4)
Residential MSRs	—	3	(11)	—	(8)	—	7	15	—	22
Liabilities:										
Brokered time deposits	(4)	—	—	—	(4)	6	—	—	—	6
Long-term debt	1	—	—	—	1	6	—	—	—	6

¹ Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2018, income related to residential MSRs includes income recognized upon the sale of loans reported at LOCOM.

² Changes in fair value for the three and nine months ended September 30, 2018 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be measured at fair value are recognized in Interest income or Interest expense in the Consolidated Statements of Income.

(Dollars in millions)	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2017 for Items Measured at Fair Value Pursuant to Election of the FVO					Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2017 for Items Measured at Fair Value Pursuant to Election of the FVO				
	Trading Income	Mortgage Production Related Income	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values	Trading Income	Mortgage Production Related Income	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in

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	Income ¹		Income		Included in Earnings ²	Income ¹		Income		Fair Values Included in Earnings ²
Assets:										
Trading loans	\$8	\$—	\$—	\$—	\$8	\$16	\$—	\$—	\$—	\$16
LHFS	—	21	—	—	21	—	44	—	—	44
LHFI	—	—	—	—	—	—	—	—	1	1
Residential MSRs	—	1	(70)	—	(69)	—	3	(195)	—	(192)
Liabilities:										
Brokered time deposits	—	—	—	—	—	2	—	—	—	2
Long-term debt	5	—	—	—	5	16	—	—	—	16

¹ Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2017, income related to residential MSRs includes income recognized upon the sale of loans reported at LOCOM.

² Changes in fair value for the three and nine months ended September 30, 2017 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be measured at fair value are recognized in Interest income or Interest expense in the Consolidated Statements of Income.

Notes to Consolidated Financial Statements (Unaudited), continued

The following is a discussion of the valuation techniques and inputs used in estimating fair value for assets and liabilities measured at fair value on a recurring basis.

Trading Assets and Derivative Instruments and Investment Securities

Unless otherwise indicated, trading assets are priced by the trading desk and investment securities are valued by an independent third party pricing service. The third party pricing service gathers relevant market data and observable inputs, such as new issue data, benchmark curves, reported trades, credit spreads, and dealer bids and offers, and integrates relevant credit information, market movements, and sector news into its matrix pricing and other market-based modeling techniques.

U.S. Treasury Securities

The Company estimates the fair value of its U.S. Treasury securities based on quoted prices observed in active markets; as such, these investments are classified as level 1.

Federal Agency Securities

The Company includes in this classification securities issued by federal agencies and GSEs. Agency securities consist of debt obligations issued by HUD, FHLB, and other agencies, as well as securities collateralized by loans that are guaranteed by the SBA, and thus, are backed by the full faith and credit of the U.S. government. For SBA instruments, the Company estimates fair value based on pricing from observable trading activity for similar securities or from a third party pricing service. Accordingly, these instruments are classified as level 2.

U.S. States and Political Subdivisions

The Company's investments in U.S. states and political subdivisions (collectively "municipals") 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. Holdings are geographically dispersed, with no significant concentrations in any one state or municipality. Additionally, all AFS municipal obligations classified as level 2 are highly rated or are otherwise collateralized by securities backed by the full faith and credit of the federal government.

MBS – Agency

Agency MBS includes 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 security contains a guarantee by the issuing GSE or agency. For agency MBS, the Company estimates fair value based on pricing from observable trading activity for similar securities or from a third party pricing service; accordingly, the Company classified these instruments as level 2.

MBS – Non-Agency

Non-agency residential MBS includes purchased interests in third party securitizations, as well as retained interests in Company-sponsored securitizations of 2006 and 2007 vintage residential mortgages (including both prime jumbo fixed rate collateral and floating rate collateral). At the time of purchase or origination, these securities had high investment grade ratings; however, they have experienced deterioration in credit quality leading to downgrades to non-investment grade levels. The

Company obtains pricing for these securities from an independent pricing service. The Company evaluates third party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, information received from market participants and analysts, and/or changes in the underlying collateral performance. At December 31, 2017, the Company classified non-agency residential MBS as level 3.

Non-agency commercial MBS consists of purchased interests in third party securitizations. These interests have high investment grade ratings, and the Company obtains pricing for these securities from an independent pricing service. The Company has classified these non-agency commercial MBS as level 2, as the third party pricing service relies on observable data for similar securities in active markets.

Asset-Backed Securities

ABS classified as securities AFS includes purchased interests in third party securitizations collateralized by home equity loans. At December 31, 2017, the Company classified ABS as level 3.

Corporate and Other Debt Securities

Corporate debt securities are comprised predominantly of senior and subordinate debt obligations of domestic corporations and are classified as level 2. Other debt securities classified as AFS include bonds that are redeemable with the issuer at par. At September 30, 2018 and December 31, 2017, the Company classified other debt securities AFS as level 2 and level 3, respectively.

Commercial Paper

The Company acquires CP that is generally short-term in nature (maturity of less than 30 days) and highly rated. The Company estimates the fair value of this CP based on observable pricing from executed trades of similar instruments; as such, CP is classified as level 2.

Equity Securities

The Company estimates the fair value of its equity securities classified as trading assets based on quoted prices observed in active markets; accordingly, these investments are classified as level 1.

Derivative Instruments

The Company holds derivative instruments for both trading and risk management purposes. Level 1 derivative instruments generally include exchange-traded futures or option contracts for which pricing is readily available. The Company's level 2 instruments are predominantly OTC swaps, options, and forwards, measured using observable market assumptions for interest rates, foreign exchange, equity, and credit. Because fair values for OTC contracts are not readily available, the Company estimates fair values using internal, but standard, valuation models. The selection of valuation models is driven by the type of contract: for option-based products, the Company uses an appropriate option pricing model such as Black-Scholes. For forward-based products, the Company's valuation methodology is generally a discounted cash flow approach.

Notes to Consolidated Financial Statements (Unaudited), continued

The Company's derivative instruments classified as level 2 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. See Note 15, "Derivative Financial Instruments," for additional information on the Company's derivative instruments.

The Company's derivative instruments classified as level 3 include IRLCs that satisfy the criteria to be treated as derivative financial instruments. The fair value of IRLCs on LHFS, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on the Company's historical data and reflect the Company's best estimate of the likelihood that a commitment will result in a closed loan. As pull-through rates increase, the fair value of IRLCs also increases. Servicing value is included in the fair value of IRLCs, and the fair value of servicing is determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair value of servicing is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets. During the three and nine months ended September 30, 2018, the Company transferred \$26 million and \$43 million, respectively, of net IRLC assets out of level 3 as the associated loans were closed. During the three and nine months ended September 30, 2017, the Company transferred \$51 million and \$157 million, respectively, of net IRLC assets out of level 3, as the associated loans were closed.

Trading Loans

The Company engages in certain businesses whereby electing to measure loans at fair value for financial reporting aligns with the underlying business purpose. Specifically, loans included within this classification include trading loans that are (i) made or acquired in connection with the Company's TRS business, (ii) part of the loan sales and trading business within the Company's Wholesale segment, or (iii) backed by the SBA. See Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 15, "Derivative Financial Instruments," for further discussion of this business. All of these loans are classified as level 2 due to the nature of market data that the Company uses to estimate fair value.

The loans made in connection with the Company's TRS business are short-term, senior demand loans supported by a pledge agreement granting first priority security interest to the Bank in all the assets held by the borrower, a VIE with assets comprised primarily of corporate loans. While these TRS-related loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are used by the Company to value these loans. At September 30, 2018 and December 31, 2017, the Company had \$1.9 billion and \$1.7 billion, respectively, of these short-term loans outstanding, measured at fair value.

The loans from the Company's sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to measure these loans at fair value since they

are actively traded. For each of the three and nine months ended September 30, 2018 and 2017, the Company recognized an immaterial amount of gains/(losses) in the Consolidated Statements of Income due to changes in fair value attributable to instrument-specific credit risk. The Company is able to obtain fair value estimates for substantially all of these loans through a third party valuation service that is broadly used by market participants. While most of the loans are traded in the market, the Company does not believe that trading activity qualifies the loans as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded. At September 30, 2018 and December 31, 2017, \$65 million and \$48 million, respectively, of loans related to the Company's trading business were held in inventory.

SBA loans are similar to SBA securities discussed herein under "Federal agency securities," except for their legal form. In both cases, the Company trades instruments that are fully guaranteed by the U.S. government as to contractual principal and interest and there is sufficient observable trading activity upon which to base the estimate of fair value.

As these SBA loans are fully guaranteed, the changes in fair value are attributable to factors other than instrument-specific credit risk. At September 30, 2018 and December 31, 2017, the Company held \$182 million and \$368 million of SBA loans in inventory, respectively.

Loans Held for Sale and Loans Held for Investment

Residential Mortgage LHFS

The Company values certain newly-originated residential mortgage LHFS at fair value based upon defined product criteria. The Company chooses to fair value these residential mortgage LHFS to eliminate the complexities and inherent difficulties of achieving hedge accounting and to better align reported results with the underlying economic changes in value of the loans and related hedge instruments. Any origination fees are recognized within Mortgage production related income in the Consolidated Statements of Income when earned at the time of closing. The servicing value is included in the fair value of the loan and is initially recognized at the time the Company enters into IRLCs with borrowers. The Company employs derivative instruments to economically hedge changes in interest rates and the related impact on servicing value in the fair value of the loan. The mark-to-market adjustments related to LHFS and the associated economic hedges are captured in Mortgage production related income.

LHFS classified as level 2 are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities, adjusted for servicing, interest rate risk, and credit risk. Non-agency residential mortgage LHFS are also included in level 2.

For residential mortgages that the Company has elected to measure at fair value, the Company recognized an immaterial amount of gains/(losses) in the Consolidated Statements of Income due to changes in fair value attributable to borrower-specific credit risk for each of the three and nine months ended September 30, 2018 and 2017. In addition to borrower-specific credit risk, there are other more significant variables that drive changes in the fair values of the loans, including interest rates and general market conditions.

Notes to Consolidated Financial Statements (Unaudited), continued

Commercial Mortgage LHFS

The Company values certain commercial mortgage LHFS at fair value based upon observable current market prices for similar loans. These loans are generally transferred to agencies within 90 days of origination. The Company had commitments from agencies to purchase these loans at September 30, 2018 and December 31, 2017; therefore, they are classified as level 2. Origination fees are recognized within Commercial real estate related income in the Consolidated Statements of Income when earned at the time of closing. To mitigate the effect of interest rate risk inherent in entering into IRLCs with borrowers, the Company enters into forward contracts with investors at the same time that it enters into IRLCs with borrowers. The mark-to-market adjustments related to commercial mortgage LHFS, IRLCs, and forward contracts are recognized in Commercial real estate related income. For commercial mortgages that the Company has elected to measure at fair value, the Company recognized no gains/(losses) in the Consolidated Statements of Income due to changes in fair value attributable to borrower-specific credit risk for each of the three and nine months ended September 30, 2018 and 2017.

LHFI

LHFI classified as level 3 includes predominantly mortgage loans that are not marketable, largely due to the identification of loan defects. The Company chooses to measure these mortgage LHFI at fair value to better align reported results with the underlying economic changes in value of the loans and any related hedging instruments. The Company values these loans using a discounted cash flow approach based on assumptions that are generally not observable in current markets, such as prepayment speeds, default rates, loss severity rates, and discount rates. Level 3 LHFI also includes mortgage loans that are valued using collateral based pricing. Changes in the applicable housing price index since the time of the loan origination are considered and applied to the loan's collateral value. An additional discount representing the return that a buyer would require is also considered in the overall fair value.

Residential Mortgage Servicing Rights

The Company records residential MSR assets at fair value using a discounted cash flow approach. The fair values of residential MSRs are impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. Because these inputs are not transparent in market trades, residential MSRs are classified as level 3 assets. For additional information see Note 8, "Goodwill and Other Intangible Assets."

Other Assets

The Company estimates the fair value of its mutual fund investments and other equity securities with readily determinable fair values based on quoted prices observed in active markets; therefore, these investments are classified as level 1. During the second quarter of 2018, the Company reclassified \$22 million of nonmarketable equity securities to

marketable equity securities due to newly available, readily determinable fair value information observed in active markets.

Liabilities

Trading Liabilities and Derivative Instruments

Trading liabilities are comprised primarily of derivative contracts, including IRLCs that satisfy the criteria to be treated as derivative financial instruments, as well as various contracts (primarily U.S. Treasury securities, corporate and other debt securities) that the Company uses in certain of its trading businesses. The Company's valuation methodologies for these derivative contracts and securities are consistent with those discussed within the corresponding sections herein under "Trading Assets and Derivative Instruments and Investment Securities."

During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of the Litigation involving Visa. The fair value of the derivative is estimated based on the

Company's expectations regarding the ultimate resolution of that Litigation. The significant unobservable inputs used in the fair value measurement of the derivative involve a high degree of judgment and subjectivity; accordingly, the derivative liability is classified as level 3. See Note 14, "Guarantees," for a discussion of the valuation assumptions.

Brokered Time Deposits

The Company has elected to measure certain CDs that contain embedded derivatives at fair value. This fair value election better aligns the economics of the CDs with the Company's risk management strategies. The Company evaluated, on an instrument by instrument basis, whether a new issuance would be measured at fair value.

The Company has classified CDs measured at fair value as level 2 instruments due to the Company's ability to reasonably measure all significant inputs based on observable market variables. The Company employs a discounted cash flow approach based on observable market interest rates for the term of the CD and an estimate of the Bank's credit risk. For any embedded derivative features, the Company uses the same valuation methodologies as if the derivative were a standalone derivative, as discussed in the "Derivative Instruments" section above.

Long-Term Debt

The Company has elected to measure at fair value certain fixed rate issuances of public debt that are valued by obtaining price indications from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. Additionally, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company classifies these debt issuances as level 2. The Company utilizes derivative instruments to convert interest rates on its fixed rate debt to floating rates. The Company elected to measure certain fixed rate debt issuances at fair value to align the accounting for the

Notes to Consolidated Financial Statements (Unaudited), continued

debt with the accounting for offsetting derivative positions, without having to apply complex hedge accounting. The Company has elected to measure certain debt issuances that contain embedded derivatives at fair value. This fair value election better aligns the economics of the debt with the Company's risk management strategies. The Company evaluated, on an instrument by instrument basis, whether a new issuance would be measured at fair value. The Company has classified these instruments measured at fair value as level 2

instruments due to the Company's ability to reasonably measure all significant inputs based on observable market variables. The Company employs a discounted cash flow approach based on observable market interest rates for the term of the debt and an estimate of the Parent Company's credit risk. For any embedded derivative features, the Company uses the same valuation methodologies that would be used if the derivative were a standalone derivative, as discussed in the "Derivative Instruments" section above.

The valuation technique and range, including weighted average, of the unobservable inputs associated with the Company's level 3 assets and liabilities are as follows:

(Dollars in millions)	Level 3 Significant Unobservable Input Assumptions			
	Fair value September 30, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average) ¹
Assets				
Trading assets and derivative instruments:				
Derivative instruments, net ²	\$3	Internal model	Pull through rate	40-100% (82%)
			MSR value	28-173 bps (116 bps)
			Option adjusted spread	62-784 bps (177 bps)
LHFI	162	Monte Carlo/Discounted cash flow	Conditional prepayment rate	4-27 CPR (12 CPR)
			Conditional default rate	0-2 CDR (0.7 CDR)
	6	Collateral based pricing	Appraised value	NM ³
Residential MSRs	2,062	Monte Carlo/Discounted cash flow	Conditional prepayment rate	5-30 CPR (13 CPR)
			Option adjusted spread	0-113% (3%)

¹ Unobservable inputs were weighted by the relative fair value of the financial instruments.

² Amount represents the net of IRLC assets and liabilities and includes the derivative liability associated with the Company's sale of Visa shares. Refer to the "Trading Liabilities and Derivative Instruments" section herein for a discussion of valuation assumptions related to the Visa derivative liability.

³ Not meaningful.

(Dollars in millions)	Level 3 Significant Unobservable Input Assumptions			
	Fair value December 31, 2017	Valuation Technique	Unobservable Input ¹	Range (Weighted Average) ²
Assets				
Trading assets and derivative instruments:				
Derivative instruments, net ³	\$-	Internal model	Pull through rate	41-100% (81%)

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		MSR value	41-190 bps (113 bps)
Securities AFS:			
MBS - non-agency residential	59	Third party pricing	N/A
ABS	8	Third party pricing	N/A
Corporate and other debt securities	5	Cost	N/A
		Option adjusted spread	62-784 bps (215 bps)
LHFI	192	Monte Carlo/Discounted cash flow	Conditional prepayment rate
		Collateral based pricing	2-34 CPR (11 CPR)
		Appraised value	0-5 CDR (0.7 CDR)
		Conditional prepayment rate	NM ⁴
Residential MSRs	1,710	Monte Carlo/Discounted cash flow	6-30 CPR (13 CPR)
		Option adjusted spread	1-125% (4%)

¹ For certain assets and liabilities where the Company utilizes third party pricing, the unobservable inputs and their ranges are not reasonably available, and therefore, have been noted as not applicable ("N/A").

² Unobservable inputs were weighted by the relative fair value of the financial instruments.

³ Amount represents the net of IRLC assets and liabilities and includes the derivative liability associated with the Company's sale of Visa shares. Refer to the "Trading Liabilities and Derivative Instruments" section herein for a discussion of valuation assumptions related to the Visa derivative liability.

⁴ Not meaningful.

Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (other than servicing rights which are disclosed in Note 8, "Goodwill and Other Intangible Assets"). Transfers into and out

of the fair value hierarchy levels are assumed to occur at the end of the period in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values.

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs								
	Beginning Balance Included in July 1, 2018 Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2018
Assets									
Trading assets:									
Derivative instruments, net	\$318	¹ \$—	\$—	\$—	\$8	(\$26)	\$—	\$—	\$3
LHFI	177	² —	—	—	(9)	—	—	—	168

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs								
	Beginning Balance Included in January 1, Earnings 2018	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2018
Assets									
Trading assets:									
Derivative instruments, net	\$36	¹ \$—	\$—	\$—	\$10	(\$43)	\$—	\$—	\$3
Securities AFS:									
MBS - non-agency residential	59	—	—	—	(2)	—	—	(57)	—
ABS	8	—	—	—	(1)	—	—	(7)	—
Corporate and other debt securities	5	—	—	—	—	—	—	(5)	—
Total securities AFS	72	—	—	—	(3)	—	—	(69)	—
LHFI	196	² —	—	—	(26)	—	1	—	168

¹ Includes issuances, fair value changes, and expirations. Amount related to residential IRLCs is recognized in Mortgage production related income, amount related to commercial IRLCs is recognized in Commercial real estate related income, and amount related to Visa derivative liability is recognized in Other noninterest expense. Included \$10 million and \$7 million in earnings during the three and nine months ended September 30, 2018, respectively, related to changes in unrealized gains on net derivative instruments still held at September 30, 2018.

² Amounts are generally included in Mortgage production related income; however, the mark on certain fair value loans is included in Other noninterest income. Included \$0 and \$4 million in earnings during the three and nine months ended September 30, 2018, respectively, related to changes in unrealized losses on LHFI still held at September 30, 2018.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs									
	Beginning Balance July 1, 2017	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2017
Assets										
Trading assets:										
Derivative instruments, net	\$4	\$52	¹ \$—	\$—	\$—	\$1	(\$51)	\$—	\$—	\$6
Securities AFS:										
U.S. states and political subdivisions										
MBS - non-agency residential	67	—	1	² —	—	(6)	—	—	—	62
ABS	9	—	—	—	—	(1)	—	—	—	8
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5
Total securities AFS	81	—	1	² —	—	(7)	—	—	—	75
Residential LHFS	2	—	—	—	(2)	(1)	(1)	3	—	1
LHFI	214	—	³ —	—	—	(9)	1	—	—	206

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs									
	Beginning Balance in January 1, 2017	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2017
Assets										
Trading assets:										
Derivative instruments, net	\$6	\$157	¹ \$—	\$—	\$—	\$—	(\$157)	\$—	\$—	\$6
Securities AFS:										
U.S. states and political subdivisions										
MBS - non-agency residential	74	—	1	² —	—	(13)	—	—	—	62
ABS	10	—	—	—	—	(2)	—	—	—	8
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5
Total securities AFS	93	—	1	² —	—	(19)	—	—	—	75
Residential LHFS	12	—	—	—	(22)	(1)	(3)	17	(2)	1
LHFI	2221	—	³ —	—	—	(24)	3	4	—	206

¹ Includes issuances, fair value changes, and expirations. Amount related to residential IRLCs is recognized in Mortgage production related income, amount related to commercial IRLCs is recognized in Commercial real estate related income, and amount related to Visa derivative liability is recognized in Other noninterest expense. Included \$19 million and \$17 million in earnings during the three and nine months ended September 30, 2017, respectively, related to changes in unrealized gains on net derivative instruments still held at September 30, 2017.

² Amounts recognized in OCI are included in change in net unrealized gains on securities AFS, net of tax.

³ Amounts are generally included in Mortgage production related income; however, the mark on certain fair value loans is included in Other noninterest income. Included \$0 and \$1 million in earnings during the three and nine months ended September 30, 2017, respectively, related to changes in unrealized gains on LHFI still held at September 30, 2017.

Notes to Consolidated Financial Statements (Unaudited), continued

Non-recurring Fair Value Measurements

The following tables present gains and losses recognized on assets still held at period end, and measured at fair value on a non-recurring basis, for the three and nine months ended September 30, 2018 and the year ended December 31, 2017. Adjustments to fair value generally result from the application

of LOCOM, or the measurement alternative, or through write-downs of individual assets. The tables do not reflect changes in fair value attributable to economic hedges the Company may have used to mitigate interest rate risk associated with LHFS.

(Dollars in millions)	September 30, 2018	Fair Value Measurements		(Losses)/Gains	(Losses)/Gains
		Level 2	Level 3	for the Three Months Ended September 30, 2018	for the Nine Months Ended September 30, 2018
LHFS	\$12	\$—	\$12	\$—	\$—
LHFI	17	—	—	17	—
OREO	22	—	1	21	(3)
Other assets	63	—	44	19	3

(Dollars in millions)	December 31, 2017	Fair Value Measurements		Losses for the Year Ended	
		Level 2	Level 3	December 31, 2017	
LHFS	\$13	\$—	\$13	\$—	\$—
LHFI	49	—	—	49	—
OREO	24	—	1	23	(4)
Other assets	53	—	4	49	(43)

Discussed below are the valuation techniques and inputs used in estimating fair values for assets measured at fair value on a non-recurring basis and classified as level 2 and/or 3.

Loans Held for Sale

At September 30, 2018 and December 31, 2017, LHFS classified as level 2 consisted of commercial loans that were valued using market prices and measured at LOCOM. There were no gains/(losses) recognized in earnings during the three and nine months ended September 30, 2018 or during the year ended December 31, 2017 as the charge-offs related to these loans are a component of the ALLL.

Loans Held for Investment

At September 30, 2018 and December 31, 2017, LHFI classified as level 3 consisted primarily of consumer loans discharged in Chapter 7 bankruptcy that had not been reaffirmed by the borrower, as well as nonperforming CRE loans for which specific reserves had been recognized. Cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from the estimated fair value of the underlying collateral, incorporating market data if available. Due to the lack of market data for similar assets, all of these loans are classified as level 3. There were no gains/(losses) recognized during the three and nine months ended September 30, 2018 or during the year ended December 31, 2017, as the charge-offs related to these loans are a component of the ALLL.

OREO

OREO is measured at the lower of cost or fair value less costs to sell. Level 2 OREO consists primarily of residential homes, commercial properties, and vacant lots and land for which binding purchase agreements exist. Level 3 OREO consists primarily of residential homes, commercial properties, and vacant lots and land for which initial valuations are based on property-specific appraisals, broker pricing opinions, or other

limited, highly subjective market information. Updated value estimates are received regularly for level 3 OREO.

Other Assets

Other assets consist of equity investments, other repossessed assets, assets under operating leases where the Company is the lessor, branch properties, land held for sale, and software.

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Company elected the measurement alternative for measuring certain equity securities without readily determinable fair values, which are adjusted based on any observable price changes in orderly transactions. These equity securities are classified as level 2 based on the valuation methodology and associated inputs. During the three and nine months ended September 30, 2018, the Company recognized remeasurement gains of \$7 million and \$30 million on these equity securities, respectively. Prior to the adoption of ASU 2016-01, equity investments were evaluated for potential impairment based on the expected remaining cash flows to be received from these assets discounted at a market rate that is commensurate with the expected risk, considering relevant company-specific valuation multiples, where applicable. Based on the valuation methodology and associated unobservable inputs, these investments are classified as level 3. During the year ended December 31, 2017, the Company recognized an immaterial amount of impairment charges on its equity investments.

Other repossessed assets include repossessed personal property that is measured at fair value less cost to sell. These assets are classified as level 3 as their fair value is determined based on a variety of subjective, unobservable factors. There were no losses recognized in earnings by the Company on other repossessed assets during the three and nine months ended September 30, 2018 or during the year ended December 31, 2017,

Notes to Consolidated Financial Statements (Unaudited), continued

as the impairment charges on repossessed personal property were a component of the ALLL.

The Company monitors the fair value of assets under operating leases where the Company is the lessor and recognizes impairment on the leased asset to the extent the carrying value is not recoverable and is greater than its fair value. Fair value is determined using collateral specific pricing digests, external appraisals, broker opinions, recent sales data from industry equipment dealers, and the discounted cash flows derived from the underlying lease agreement. As market data for similar assets and lease arrangements is available and used in the valuation, these assets are considered level 2. During each of the three and nine months ended September 30, 2018 and the year ended December 31, 2017, the Company recognized an immaterial amount of impairment charges attributable to changes in the fair value of various personal property under operating leases.

Branch properties are classified as level 3, as their fair value is based on property-specific appraisals and broker opinions. The Company recognized an immaterial amount of impairment on

branch properties during the three and nine months ended September 30, 2018. During the year ended December 31, 2017, the Company recognized impairment charges of \$10 million on branch properties.

Land held for sale is recorded at the lesser of carrying value or fair value less cost to sell, and is considered level 3 as its fair value is determined based on property-specific appraisals and broker opinions. The Company recognized no impairment charges on land held for sale during the three and nine months ended September 30, 2018. During the year ended December 31, 2017, the Company recognized an immaterial amount of impairment charges on land held for sale.

Software consisted primarily of external software licenses and internally developed software that were impaired and for which fair value was determined using a level 3 measurement. This resulted in impairment charges of \$8 million during the nine months ended September 30, 2018, and \$28 million during the year ended December 31, 2017. No impairment charges were recognized during the three months ended September 30, 2018.

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Notes to Consolidated Financial Statements (Unaudited), continued

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments are as follows:

(Dollars in millions)	Measurement Category	September 30, 2018		Fair Value Measurements		
		Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	Amortized cost	\$7,605	\$7,605	\$7,605	\$—	\$—
Trading assets and derivative instruments	Fair value	5,676	5,676	638	5,026	12
Securities AFS	Fair value	30,984	30,984	4,133	26,851	—
LHFS	Amortized cost	139	142	—	110	32
	Fair value	1,822	1,822	—	1,822	—
LHFI, net	Amortized cost	145,424	144,480	—	—	144,480
	Fair value	168	168	—	—	168
Other ¹	Amortized cost	545	545	—	—	545
	Fair value	92	92	92	—	—
Financial liabilities:						
Consumer and other time deposits	Amortized cost	15,166	14,889	—	14,889	—
Brokered time deposits	Amortized cost	662	738	—	738	—
	Fair value	384	384	—	384	—
Short-term borrowings	Amortized cost	7,940	7,940	—	7,940	—
Long-term debt	Amortized cost	14,054	14,125	—	12,396	1,729
	Fair value	235	235	—	235	—
Trading liabilities and derivative instruments	Fair value	1,863	1,863	886	968	9

¹ Other financial assets recorded at amortized cost consist of FHLB of Atlanta stock and Federal Reserve Bank of Atlanta stock. Other financial assets recorded at fair value consist of mutual fund investments and other equity securities with readily determinable fair values.

(Dollars in millions)	Measurement Category	December 31, 2017		Fair Value Measurements		
		Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:						
Cash and cash equivalents	Amortized cost	\$6,912	\$6,912	\$6,912	\$—	\$—
Trading assets and derivative instruments	Fair value	5,093	5,093	608	4,469	16
Securities AFS	Fair value	30,947	30,947	4,331	26,544	72
LHFS	Amortized cost	713	716	—	662	54
	Fair value	1,577	1,577	—	1,577	—
LHFI, net	Amortized cost	141,250	141,379	—	—	141,379
	Fair value	196	196	—	—	196
Other ¹	Amortized cost	418	418	—	—	418
	Fair value	56	56	56	—	—
Financial liabilities:						
Consumer and other time deposits	Amortized cost	12,076	11,906	—	11,906	—
Brokered time deposits	Amortized cost	749	725	—	725	—
	Fair value	236	236	—	236	—
Short-term borrowings	Amortized cost	4,781	4,781	—	4,781	—

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Long-term debt	Amortized cost	9,255	9,362	—	8,304	1,058
	Fair value	530	530	—	530	—
Trading liabilities and derivative instruments	Fair value	1,283	1,283	769	498	16

¹ Other financial assets recorded at amortized cost consist of FHLB of Atlanta stock and Federal Reserve Bank of Atlanta stock. Other financial assets recorded at fair value consist of mutual fund investments and other equity securities with readily determinable fair values.

Unfunded loan commitments and letters of credit are not included in the table above. At September 30, 2018 and December 31, 2017, the Company had \$71.1 billion and \$66.4 billion, respectively, of unfunded commercial loan commitments and letters of credit. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related unfunded commitments reserve, which was a combined

\$74 million and \$84 million at September 30, 2018 and December 31, 2017, respectively. No active trading market exists for these instruments, and the estimated fair value does not include value associated with the borrower relationship. The Company does not estimate the fair values of consumer unfunded lending commitments which can generally be canceled by providing notice to the borrower.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 17 – CONTINGENCIES

Litigation and Regulatory Matters

In the ordinary course of business, the Company and its subsidiaries are parties 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 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. These factors make it difficult for the Company to 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 Company's financial statements at September 30, 2018 reflect the Company's current best estimate of probable losses associated with these matters, including costs to comply with various settlement agreements, where applicable. 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 in excess of related reserves, if any. Management currently estimates these losses to range from \$0 to approximately \$160 million. This estimated range of reasonably possible losses represents the estimated possible losses over the life of such legal matters, which may span a currently indeterminable number of years, and is based on information available at September 30, 2018. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range; therefore, this estimated range 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 on 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:

Card Association Antitrust Litigation

The Company is a defendant, along with Visa and Mastercard, as well as several other banks, in several antitrust lawsuits challenging their practices. For a discussion regarding the Company's involvement in this litigation matter, see Note 14, "Guarantees."

Bickerstaff v. SunTrust Bank

This case was filed in the Fulton County State Court on July 12, 2010, and an amended complaint was filed on August 9, 2010. Plaintiff asserts that all overdraft fees charged to his account which related to debit card and ATM transactions are actually interest charges and therefore subject to the usury laws of Georgia. Plaintiff has brought claims for violations of civil and criminal usury laws, conversion, and money had and received, and purports to bring the action on behalf of all Georgia citizens who incurred such overdraft fees within the four years before the complaint was filed where the overdraft fee resulted in an interest rate being charged in excess of the usury rate. On April 8, 2013, the plaintiff filed a motion for class certification and that motion was denied but the ruling was later reversed and remanded by the Georgia Supreme Court. On October 6, 2017, the trial court granted plaintiff's motion for class certification and the Bank filed an appeal of the decision on November 3, 2017.

Mutual Funds ERISA Class Action

On March 11, 2011, the Company and certain officers, directors, and employees of the Company were named in a putative class action alleging that they breached their fiduciary duties under ERISA by offering certain STI Classic

Mutual Funds as investment options in the Plan. The plaintiffs purport to represent all current and former Plan participants who held the STI Classic Mutual Funds in their Plan accounts from April 2002 through December 2010 and seek to recover alleged losses these Plan participants supposedly incurred as a result of their investment in the STI Classic Mutual Funds. This action is pending in the U.S. District Court for the Northern District of Georgia, Atlanta Division (the “District Court”). Subsequently, plaintiffs' counsel initiated a substantially similar lawsuit against the Company naming two new plaintiffs. On June 27, 2014, *Brown, et al. v. SunTrust Banks, Inc., et al.*, another putative class action alleging breach of fiduciary duties associated with the inclusion of STI Classic Mutual Funds as investment options in the Plan, was filed in the U.S. District Court for the District of Columbia but then was transferred to the District Court.

After various appeals, the cases were remanded to the District Court. On March 25, 2016, a consolidated amended complaint was filed, consolidating all of these pending actions into one case. The Company filed an answer to the consolidated amended complaint on June 6, 2016. Subsequent to the closing of fact discovery, plaintiffs filed their second amended consolidated complaint on December 19, 2017 which among other things named five new defendants. On January 2, 2018, defendants filed their answer to the second amended consolidated complaint. Defendants' motion for partial summary judgment was filed on January 12, 2018, and on January 16, 2018 the plaintiffs filed for motion for class certification. Defendants' motion for partial summary judgment was granted by the District Court on May 2, 2018, which held that all claims prior to March 11, 2005 have been dismissed as well as dismissing three individual defendants from action. On June 27, 2018, the District Court granted the plaintiffs' motion for class certification. An additional motion for partial summary judgment was filed by defendants on October 5, 2018.

Notes to Consolidated Financial Statements (Unaudited), continued

Intellectual Ventures II v. SunTrust Banks, Inc. and SunTrust Bank

This action was filed in the U.S. District Court for the Northern District of Georgia on July 24, 2013. Plaintiff alleged that SunTrust violates five patents held by plaintiff in connection with SunTrust's provision of online banking services and other systems and services. Plaintiff seeks damages for alleged patent infringement of an unspecified amount, as well as attorney's fees and expenses. The matter was stayed on October 7, 2014 pending inter partes reviews of a number of the claims asserted against SunTrust. After completion of those reviews, plaintiff dismissed its claims regarding four of the five patents on August 1, 2017.

United States Mortgage Servicing Settlement

In the second quarter of 2014, STM and the U.S., through the DOJ, HUD, and Attorneys General for several states, reached a final settlement agreement related to the National Mortgage Servicing Settlement. The settlement agreement became effective on September 30, 2014 when the court entered the Consent Judgment. Pursuant to the settlements, STM made \$50 million in cash payments, provided \$500 million of consumer relief, and implemented certain mortgage servicing standards. In an August 10, 2017 report, the independent Office of Mortgage Settlement Oversight ("OMSO"), appointed to review and certify compliance with the provisions of the settlement, confirmed that STM fulfilled its consumer relief commitments of the settlement. STM's mortgage servicing standard obligations concluded on March 31, 2018. On August 22, 2018, the OMSO issued its final compliance report confirming that STM completed its obligations under the settlement.

LR Trust v. SunTrust Banks, Inc., et al.

In November 2016, the Company and certain officers and directors were named as defendants in a shareholder derivative action alleging that defendants failed to take action related to activities at issue in the National Mortgage Servicing, HAMP, and FHA Originations settlements, and certain other legal

matters or to ensure that the alleged activities in each were remedied and otherwise appropriately addressed. Plaintiff sought an award in favor of the Company for the amount of damages sustained by the Company, disgorgement of alleged benefits obtained by defendants, and enhancements to corporate governance and internal controls. On September 18, 2017, the district court dismissed this matter and on October 16, 2017, plaintiff filed an appeal. A settlement of the matter was reached in which the defendants agreed to pay \$585,000 and the Company committed to certain non-monetary corporate governance activities through March 2021. Preliminary approval of the settlement was granted by the district court on September 18, 2018.

Millennium Lender Claim Trust v. STRH and SunTrust Bank, et al.

In August 2017, the Trustee of the Millennium Lender Claim Trust filed a suit in the New York State Court against STRH, SunTrust Bank, and other lenders of the \$1.775 B Millennium Health LLC f/k/a Millennium Laboratories LLC ("Millennium") syndicated loan. The Trustee alleges that the loan was actually a security and that defendants misrepresented or omitted to state material facts in the offering materials and communications provided concerning the legality of Millennium's sales, marketing, and billing practices and the known risks posed by a pending government investigation into the illegality of such practices. The Trustee brings claims for violation of the California Corporate Securities Law, the Massachusetts Uniform Securities Act, the Colorado Securities Act, and the Illinois Securities Law, as well as negligent misrepresentation and seeks rescission of sales of securities as well as unspecified rescissory damages, compensatory damages, punitive damages, interest, and attorneys' fees and costs. The defendants have removed the case to the U.S. District Court for the Southern District of New York and Trustee's motion to remand the case back to state court was denied.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 18 - BUSINESS SEGMENT REPORTING

The Company operates and measures business activity across two segments: Consumer and Wholesale, with functional activities included in Corporate Other. The Company's business segment structure is based on the manner in which financial information is evaluated by management as well as the products and services provided or the type of client served. In the second quarter of 2018, certain business banking clients within Commercial Banking were transferred from the Wholesale segment to the Consumer segment to create greater consistency in delivering tailored solutions to business banking clients through the alignment of client coverage and client service in branches. Prior period business segment results were revised to conform with this updated business segment structure. Additionally, the transfer resulted in a reallocation of goodwill from Wholesale to Consumer, as disclosed in Note 8, "Goodwill and Other Intangible Assets."

The following is a description of the segments and their primary businesses at September 30, 2018.

The Consumer segment is made up of four primary businesses:

Consumer Banking provides services to individual consumers, small business, and business banking clients through an extensive network of traditional and in-store branches, ATMs, online banking (www.suntrust.com), mobile banking, and by telephone (1-800-SUNTRUST). Financial products and services offered to consumers and small business clients include deposits and payments, loans, and various fee-based services. Consumer Banking also serves as an entry point for clients and provides services for other businesses.

Consumer Lending offers an array of lending products to individual consumers and small business clients via the Company's Consumer Banking and PWM businesses, through the internet (www.suntrust.com and www.lightstream.com), as well as through various national offices and partnerships. Products offered include home equity lines, personal credit lines and loans, direct auto, indirect auto, student lending, credit cards, and other lending products.

PWM provides a full array of wealth management products and professional services to individual consumers and institutional clients, including loans, deposits, brokerage, professional investment advisory, and trust services to clients seeking active management of their financial resources. Institutional clients are served by the Institutional Investment Solutions business. Discount/online and full-service brokerage products are offered to individual clients through STIS. Investment advisory products and services are offered to clients by STAS, an SEC registered investment advisor. PWM also includes GFO Advisory Services, LLC, which provides family office solutions to clients and their families to help them manage and sustain wealth across multiple generations, including family meeting facilitation, consolidated reporting, expense management, specialty asset management, and business transition advice, as well as other wealth management disciplines.

Mortgage Banking offers residential mortgage products nationally through its retail and correspondent channels, the internet (www.suntrust.com), and by telephone (1-800-SUNTRUST). These products are either sold in the secondary market, primarily with servicing rights retained, or held in the Company's loan portfolio. Mortgage Banking also services loans for other investors, in addition to loans held in the Company's loan portfolio.

The Company successfully merged its STM and Bank legal entities in the third quarter of 2018. Subsequent to the merger, mortgage operations have continued under the Bank's charter. This merger will simplify the Company's organizational structure and allow it to more fully serve the needs of clients. There were no material financial impacts associated with the merger, other than the tax impacts described in Note 12, "Income Taxes."

The Wholesale segment is made up of three primary businesses and the Treasury & Payment Solutions product group: CIB delivers comprehensive capital markets solutions, including advisory, capital raising, and financial risk management, with the goal of serving the needs of both public and private companies in the Wholesale segment and PWM business. Investment Banking and Corporate Banking teams within CIB serve clients across the nation, offering a full suite of traditional banking and investment banking products and services to companies with annual revenues typically greater than \$150 million. Investment Banking serves select industry segments including consumer and

retail, energy, technology, financial services, healthcare, industrials, and media and communications. Corporate Banking serves clients across diversified industry sectors based on size, complexity, and frequency of capital markets issuance. CIB also includes the Company's Asset Finance Group, which offers a full complement of asset-based financing solutions such as securitizations, asset-based lending, equipment financing, and structured real estate arrangements.

Commercial Banking offers an array of traditional banking products, including lending, cash management, and investment banking solutions via CIB, to commercial clients (generally clients with revenues between \$5 million and \$250 million), including not-for-profit organizations, governmental entities, healthcare and aging services, and auto dealer financing (floor plan inventory financing). Local teams deliver these solutions along with the Company's industry expertise to commercial clients to help them achieve smart growth.

Commercial Real Estate provides a range of credit and deposit services as well as fee-based product offerings to privately held real estate companies and institutional funds operating within the office, retail, multifamily, and industrial property sectors. Commercial Real Estate also provides multi-family agency lending and servicing, advisory, and commercial mortgage brokerage services via its Agency Lending division. Additionally, Commercial Real Estate offers tailored financing and equity investment

Notes to Consolidated Financial Statements (Unaudited), continued

solutions for community development and affordable housing projects through STCC, with particular expertise in Low Income Housing Tax Credits and New Market Tax Credits. The Institutional Property Group business targets relationships with REITs, pension fund advisors, private funds, homebuilders, and insurance companies and the Regional business focuses on private real estate owners and developers through a regional delivery structure. The Investor Services Group offers loan administration, special servicing, valuation, and advisory services to third party clients.

Treasury & Payment Solutions provides business clients in the Wholesale segment with services required to manage their payments and receipts, combined with the ability to manage and optimize their deposits across all aspects of their business. Treasury & Payment Solutions operates all electronic and paper payment types, including card, wire transfer, ACH, check, and cash. It also provides clients the means to manage their accounts electronically online, both domestically and internationally.

Corporate Other includes management of the Company's investment securities portfolio, long-term debt, end user derivative instruments, short-term liquidity and funding activities, balance sheet risk management, and most real estate assets, as well as the Company's functional activities such as marketing, finance, ER, legal, enterprise information services, and executive management, among others. Additionally, for all periods prior to January 1, 2018, the results of PAC were reported in the Wholesale segment and were reclassified to Corporate Other for enhanced comparability of the Wholesale segment results excluding PAC. See Note 2, "Acquisitions/Dispositions," in the Company's 2017 Annual Report on Form 10-K for additional information related to the sale of PAC in December 2017.

Because business segment results are presented based on management accounting practices, the transition to the consolidated results prepared under U.S. GAAP creates certain differences, which are reflected in reconciling items. Business segment reporting conventions are described below.

• Net interest income-FTE – is reconciled from Net interest income and is grossed-up on an FTE basis to make income from tax-exempt assets comparable to other taxable

products. Segment results reflect matched maturity funds transfer pricing, which ascribes credits or charges based on the economic value or cost created by assets and liabilities of each segment. Differences between these credits and charges are captured as reconciling items.

• Provision for credit losses – represents net charge-offs by segment combined with an allocation to the segments for the provision attributable to each segment's quarterly change in the ALLL and unfunded commitments reserve balances.

• Noninterest income – includes federal and state tax credits that are grossed-up on a pre-tax equivalent basis, related primarily to certain community development investments.

• Provision for income taxes-FTE – is calculated using a blended income tax rate for each segment and includes reversals of the tax adjustments and credits described above. The difference between the calculated provision for income taxes at the segment level and the consolidated provision for income taxes is reported as reconciling items.

The segment's financial performance is comprised of direct financial results and allocations for various corporate functions that provide management an enhanced view of the segment's financial performance. Internal allocations include the following:

• Operational costs – expenses are charged to segments based on an activity-based costing process, which also allocates residual expenses to the segments. Generally, recoveries of these costs are reported in Corporate Other.

• Support and overhead costs – expenses not directly attributable to a specific segment are allocated based on various drivers (number of equivalent employees, number of PCs/laptops, net revenue, etc.). Recoveries for these allocations are reported in Corporate Other.

The application and development of management reporting methodologies is an active process and undergoes periodic enhancements. The implementation of these enhancements to the internal management reporting methodology may materially affect the results disclosed for each segment, with no impact on consolidated results. If significant changes to management reporting methodologies take place, the impact of these changes is quantified and prior period

information is revised, when practicable.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2018				Consolidated
	Consumer	Wholesale	Corporate Other	Reconciling Items	
Balance Sheets:					
Average LHFI	\$75,414	\$70,485	\$96	\$—	\$145,995
Average consumer and commercial deposits	111,930	47,773	212	(567)	159,348
Average total assets	86,112	84,766	35,612	905	207,395
Average total liabilities	112,879	54,284	16,481	(524)	183,120
Average total equity	—	—	—	24,275	24,275
Statements of Income:					
Net interest income	\$1,079	\$550	(\$49)	(\$68)	\$1,512
FTE adjustment	—	22	1	(1)	22
Net interest income-FTE ¹	1,079	572	(48)	(69)	1,534
Provision for credit losses ²	36	25	—	—	61
Net interest income after provision for credit losses-FTE	1,043	547	(48)	(69)	1,473
Total noninterest income	445	373	10	(46)	782
Total noninterest expense	994	433	(38)	(5)	1,384
Income before provision for income taxes-FTE	494	487	—	(110)	871
Provision for income taxes-FTE ³	113	115	(52)	(59)	117
Net income including income attributable to noncontrolling interest	381	372	52	(51)	754
Net income attributable to noncontrolling interest	—	—	2	—	2
Net income	\$381	\$372	\$50	(\$51)	\$752

¹ Presented on a matched maturity funds transfer price basis for the segments.

² Provision for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.

³ Includes regular provision for income taxes as well as FTE income and tax credit adjustment reversals.

(Dollars in millions)	Three Months Ended September 30, 2017 ^{1,2}				Consolidated
	Consumer	Wholesale	Corporate Other	Reconciling Items	
Balance Sheets:					
Average LHFI	\$74,742	\$68,568	\$1,399	(\$3)	\$144,706
Average consumer and commercial deposits	109,774	49,515	189	(59)	159,419
Average total assets	84,345	82,573	36,286	2,534	205,738
Average total liabilities	110,713	55,054	15,406	(8)	181,165
Average total equity	—	—	—	24,573	24,573
Statements of Income:					
Net interest income	\$999	\$511	(\$5)	(\$75)	\$1,430
FTE adjustment	—	36	1	—	37
Net interest income-FTE ³	999	547	(4)	(75)	1,467
Provision/(benefit) for credit losses ⁴	140	(19)	—	(1)	120
Net interest income after provision/(benefit) for credit losses-FTE	859	566	(4)	(74)	1,347
Total noninterest income	482	397	19	(52)	846
Total noninterest expense	927	421	48	(5)	1,391

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Income before provision for income taxes-FTE	414	542	(33)	(121)	802
Provision for income taxes-FTE ⁵	150	201	(18)	(71)	262
Net income including income attributable to noncontrolling interest	264	341	(15)	(50)	540
Net income attributable to noncontrolling interest	—	—	2	—	2
Net income	\$264	\$341	(\$17)	(\$50)	\$538

During the second quarter of 2018, certain of the Company's business banking clients were transferred from the Wholesale business segment to the Consumer business segment. For all periods prior to the second quarter of 2018, the corresponding financial results have been transferred to the Consumer business segment for comparability purposes.

During the fourth quarter of 2017, the Company sold PAC, the results of which were previously reported within the Wholesale business segment. For all periods prior to January 1, 2018, PAC's financial results, including the gain on sale, have been transferred to Corporate Other for enhanced comparability of the Wholesale business segment excluding PAC.

³ Presented on a matched maturity funds transfer price basis for the segments.

⁴ Provision/(benefit) for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision/(benefit) attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.

⁵ Includes regular provision for income taxes as well as FTE income and tax credit adjustment reversals.

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Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Nine Months Ended September 30, 2018				
	Consumer	Wholesale	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:					
Average LHFI	\$75,122	\$69,155	\$93	(\$2)	\$144,368
Average consumer and commercial deposits	111,025	48,259	205	(330)	159,159
Average total assets	85,124	83,001	35,563	1,682	205,370
Average total liabilities	111,928	54,383	15,038	(303)	181,046
Average total equity	—	—	—	24,324	24,324
Statements of Income:					
Net interest income	\$3,144	\$1,605	(\$120)	(\$189)	\$4,440
FTE adjustment	—	63	2	—	65
Net interest income-FTE ¹	3,144	1,668	(118)	(189)	4,505
Provision for credit losses ²	101	19	—	1	121
Net interest income after provision for credit losses-FTE	3,043	1,649	(118)	(190)	4,384
Total noninterest income	1,349	1,124	50	(115)	2,408
Total noninterest expense	2,995	1,307	(95)	(16)	4,191
Income before provision for income taxes-FTE	1,397	1,466	27	(289)	2,601
Provision for income taxes-FTE ³	316	346	(29)	(156)	477
Net income including income attributable to noncontrolling interest	1,081	1,120	56	(133)	2,124
Less: Net income attributable to noncontrolling interest	—	—	7	—	7
Net income	\$1,081	\$1,120	\$49	(\$133)	\$2,117

¹ Presented on a matched maturity funds transfer price basis for the segments.

² Provision for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.

³ Includes regular provision for income taxes as well as FTE income and tax credit adjustment reversals.

(Dollars in millions)	Nine Months Ended September 30, 2017 ^{1, 2}				
	Consumer	Wholesale	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:					
Average LHFI	\$73,613	\$69,303	\$1,362	(\$2)	\$144,276
Average consumer and commercial deposits	109,301	49,724	149	(29)	159,145
Average total assets	83,310	82,916	35,903	2,704	204,833
Average total liabilities	110,264	55,322	15,110	6	180,702
Average total equity	—	—	—	24,131	24,131
Statements of Income:					
Net interest income	\$2,915	\$1,490	\$29	(\$235)	\$4,199
FTE adjustment	—	105	2	—	107
Net interest income-FTE ³	2,915	1,595	31	(235)	4,306
Provision for credit losses ⁴	310	19	—	1	330
Net interest income after provision for credit losses-FTE	2,605	1,576	31	(236)	3,976
Total noninterest income	1,427	1,169	59	(135)	2,520
Total noninterest expense	2,939	1,284	34	(14)	4,243
Income before provision for income taxes-FTE	1,093	1,461	56	(357)	2,253

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Provision for income taxes-FTE ⁵	395	544	(11)	(215)	713
Net income including income attributable to noncontrolling interest	698	917	67		(142)	1,540
Less: Net income attributable to noncontrolling interest	—	—	7		—		7
Net income	\$698	\$917	\$60		(\$142)	\$1,533

During the second quarter of 2018, certain of the Company's business banking clients were transferred from the Wholesale business segment to the Consumer business segment. For all periods prior to the second quarter of 2018, the corresponding financial results have been transferred to the Consumer business segment for comparability purposes.

During the fourth quarter of 2017, the Company sold PAC, the results of which were previously reported within the Wholesale business segment. For all periods prior to January 1, 2018, PAC's financial results, including the gain on sale, have been transferred to Corporate Other for enhanced comparability of the Wholesale business segment excluding PAC.

³ Presented on a matched maturity funds transfer price basis for the segments.

⁴ Provision for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.

⁵ Includes regular provision for income taxes as well as FTE income and tax credit adjustment reversals.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 19 - ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the components of AOCI, net of tax, are presented in the following table:

(Dollars in millions)	Securities AFS	Derivative Instruments	Brokered Time Deposits	Long-Term Debt	Employee Benefit Plans	Total
Three Months Ended September 30, 2018						
Balance, beginning of period	(\$519)	(\$459)	(\$1)	(\$2)	(\$698)	(\$1,679)
Net unrealized losses arising during the period	(178)	(37)	—	—	—	(215)
Amounts reclassified to net income	—	17	—	—	3	20
Other comprehensive (loss)/income, net of tax	(178)	(20)	—	—	3	(195)
Balance, end of period	(\$697)	(\$479)	(\$1)	(\$2)	(\$695)	(\$1,874)
Three Months Ended September 30, 2017						
Balance, beginning of period	(\$5)	(\$168)	(\$1)	(\$7)	(\$596)	(\$777)
Net unrealized gains arising during the period	40	6	—	1	—	47
Amounts reclassified to net income	—	(8)	—	—	3	(5)
Other comprehensive income/(loss), net of tax	40	(2)	—	1	3	42
Balance, end of period	\$35	(\$170)	(\$1)	(\$6)	(\$593)	(\$735)
Nine Months Ended September 30, 2018						
Balance, beginning of period	(\$1)	(\$244)	(\$1)	(\$4)	(\$570)	(\$820)
Cumulative effect adjustment related to ASU adoption ¹	30	(56)	—	(1)	(127)	(154)
Net unrealized (losses)/gains arising during the period	(725)	(209)	—	3	(7)	(938)
Amounts reclassified to net income	(1)	30	—	—	9	38
Other comprehensive (loss)/income, net of tax	(726)	(179)	—	3	2	(900)
Balance, end of period	(\$697)	(\$479)	(\$1)	(\$2)	(\$695)	(\$1,874)
Nine Months Ended September 30, 2017						
Balance, beginning of period	(\$62)	(\$157)	(\$1)	(\$7)	(\$594)	(\$821)
Net unrealized gains/(losses) arising during the period	98	38	—	1	(9)	128
Amounts reclassified to net income	(1)	(51)	—	—	10	(42)
Other comprehensive income/(loss), net of tax	97	(13)	—	1	1	86
Balance, end of period	\$35	(\$170)	(\$1)	(\$6)	(\$593)	(\$735)

¹ Related to the Company's adoption of ASU 2018-02 on January 1, 2018. See Note 1, "Significant Accounting Policies," for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

Reclassifications from AOCI to Net income, and the related tax effects, are presented in the following table:

(Dollars in millions)	Three		Nine		Impacted Line Item in the Consolidated Statements of Income
	Months		Months		
	Ended		Ended		
	September		September		
	30		30		
Details About AOCI Components	2018	2017	2018	2017	
Securities AFS:					
Net realized gains on securities AFS	\$—	\$—	(\$1)	(\$1)	Net securities gains
Tax effect	—	—	—	—	Provision for income taxes
	—	—	(1)	(1)	
Derivative Instruments:					
Net realized losses/(gains) on cash flow hedges	22	(13)	39	(81)	Interest and fees on loans held for investment
Tax effect	(5)	5	(9)	30	Provision for income taxes
	17	(8)	30	(51)	
Employee Benefit Plans:					
Amortization of prior service credit	(2)	(1)	(5)	(4)	Employee benefits
Amortization of actuarial loss	6	6	17	18	Employee benefits
	4	5	12	14	
Tax effect	(1)	(2)	(3)	(4)	Provision for income taxes
	3	3	9	10	
Total reclassifications from AOCI to net income	\$20	(\$5)	\$38	(\$42)	

MANAGEMENT'S
DISCUSSION
AND ANALYSIS
Item 2. OF FINANCIAL
CONDITION
AND RESULTS
OF OPERATION

Important Cautionary Statement About Forward-Looking Statements

This Quarterly Report contains forward-looking statements. Statements regarding: (i) 2018 on track to be the seventh consecutive year of growth in EPS, improved efficiency, and higher capital returns; (ii) future levels of net interest margin, noninterest income, the tangible efficiency ratio, share repurchases, the net charge-offs to total average LHF ratio, the ALLL to period-end LHF ratio, the NPLs to period-end LHF ratio, and the provision for loan losses; (iii) the pace of expansion in our net interest margin; (iv) the timing of our tangible efficiency ratio goals; (v) continued migration towards higher cost deposit products; (vi) future trends or increases in deposit costs; (vii) our access to alternative funding sources; (viii) potential acceleration of share repurchases; (ix) the possible purchase of additional, or termination of existing, interest rate swaps; (x) the amount and timing of pre-tax deferred losses that will be reclassified from AOCI into net income related to the termination and settlement of the NCF pension plan; (xi) growth opportunities in our Wholesale segment; (xii) future changes in the size and composition of the securities AFS portfolio; (xiii) our flexibility to use our securities AFS portfolio to manage our interest rate risk profile; (xiv) the estimated impact of proposed regulatory capital rules and changes in banking laws, rules, and regulations; (xv) the impact of a gradual shift in interest rates on our MVE; and (xvi) future credit ratings and outlook, 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 "believe," "expect," "anticipate," "estimate," "intend," "target," "forecast," "future," "strategic," "initiative," "plan," "opportunity," "potentially," "probably," "project," "outlook," or similar expressions or future conditional such as "may," "will," "should," "would," and "could." Such statements are based upon the current beliefs and expectations of management and on information currently available to management. They speak as of the date hereof, and we do not assume any obligation to update the statements made herein 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. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Part I, Item 1A., "Risk Factors," in our 2017 Annual Report on Form 10-K and in Part II, Item 1A., "Risk Factors," in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, and also include risks discussed in this Quarterly Report and in other periodic 2018 reports that we filed with the SEC. Such factors include: current and future legislation and regulation could require us to change our business practices, reduce revenue, impose additional costs, or otherwise adversely affect business operations or competitiveness; we are subject to stringent capital adequacy and liquidity requirements and our failure to meet these would adversely affect our financial condition; the monetary and

fiscal policies of the federal government and its agencies could have a material adverse effect on our earnings; our financial results have been, and may continue to be, materially affected by general economic conditions, and a deterioration of economic conditions or of the financial markets may materially adversely affect our lending and other businesses and our financial results and condition; changes in market interest rates or capital markets could adversely affect our revenue and expenses, the value of assets and obligations, and the availability and cost of capital and liquidity; interest rates on our outstanding financial instruments might be subject to change based on regulatory developments, which could adversely affect our revenue, expenses, and the value of those financial instruments; our earnings may be affected by volatility in mortgage production and servicing revenues, and by changes in carrying values of our servicing assets and mortgages held for sale due to changes in interest rates; disruptions in our ability to access global capital markets may adversely affect our capital resources and liquidity; we are subject to credit risk; we

may have more credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral; we rely on the mortgage secondary market and GSEs for some of our liquidity; loss of customer deposits could increase our funding costs; any reduction in our credit rating could increase the cost of our funding from the capital markets; we are subject to litigation, and our expenses related to this litigation may adversely affect our results; we may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations; we are subject to certain risks related to originating and selling mortgages, and may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, or borrower fraud, and this could harm our liquidity, results of operations, and financial condition; we face risks as a servicer of loans; consumers and small businesses may decide not to use banks to complete their financial transactions, which could affect net income; we have businesses other than banking which subject us to a variety of risks; negative public opinion could damage our reputation and adversely impact business and revenues; we may face more intense scrutiny of our sales, training, and incentive compensation practices; we rely on other companies to provide key components of our business infrastructure; competition in the financial services industry is intense and we could lose business or suffer margin declines as a result; we continually encounter technological change and must effectively develop and implement new technology; maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services; we have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits; we depend on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer; we may not be able to hire or retain additional qualified personnel and recruiting and

compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategies; our framework for managing risks may not be effective in mitigating risk and loss to us; our controls and procedures may not prevent or detect all errors or acts of fraud; we are at risk of increased losses from fraud; our operational and communications systems and infrastructure may fail or may be the subject of a breach or cyber-attack that, if successful, could adversely affect our business and disrupt business continuity; a disruption, breach, or failure in the operational systems and infrastructure of our third party vendors and other service providers, including as a result of cyber-attacks, could adversely affect our business; natural disasters and other catastrophic events could have a material adverse impact on our operations

or our financial condition and results; the soundness of other financial institutions could adversely affect us; we depend on the accuracy and completeness of information about clients and counterparties; our accounting policies and processes are critical to how we report our financial condition and results of operation, and they require management to make estimates about matters that are uncertain; depressed market values for our stock and adverse economic conditions sustained over a period of time may require us to write down all or some portion of our goodwill; our stock price can be volatile; we might not pay dividends on our stock; our ability to receive dividends from our subsidiaries or other investments could affect our liquidity and ability to pay dividends; and certain banking laws and certain provisions of our articles of incorporation may have an anti-takeover effect.

INTRODUCTION

We are a leading provider of financial services, with our headquarters located in Atlanta, Georgia. We are an organization driven by our Company purpose of Lighting the Way to Financial Well-Being — helping instill a sense of confidence in the financial circumstances of clients, communities, teammates, and shareholders is at the center of everything we do. Our principal subsidiary, SunTrust Bank, offers a full line of financial services for consumers, businesses, corporations, institutions, and not-for-profit entities, both through its branches (located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia) and through other digital and national delivery channels. In addition to deposit, credit, mortgage banking, and trust and investment services offered by the Bank, our other subsidiaries provide capital markets, securities brokerage, investment banking, and wealth management services. We operate two business segments: Consumer and Wholesale, with functional activities included in Corporate Other. See Note 18, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-Q for a description of our business segments.

This MD&A is intended to assist readers in their analysis of the accompanying Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements in Part I, Item 1

of this Form 10-Q, as well as other information contained in this document and in our 2017 Annual Report on Form 10-K. When we refer to "SunTrust," "the Company," "we," "our," and "us" in this report, we mean SunTrust Banks, Inc. and its consolidated subsidiaries.

In this MD&A, consistent with SEC guidance in Industry Guide 3 that contemplates the calculation of tax exempt income on a tax equivalent basis, we present net interest income, net interest margin, total revenue, and efficiency ratios on an FTE basis. The FTE basis adjusts for the tax-favored status of net interest income from certain loans and investments using a federal tax rate of 21% for all periods beginning on or after January 1, 2018 and 35% for all periods prior to January 1, 2018, as well as state income taxes, where applicable, to increase tax-exempt interest income to a taxable-equivalent basis. We believe the FTE basis is the preferred industry measurement basis for net interest income, net interest margin, total revenue, and efficiency ratios, and that it enhances comparability of net interest income and total revenue arising from taxable and tax-exempt sources. Additionally, we present other non-U.S. GAAP metrics to assist investors in understanding management's view of particular financial measures, as well as to align presentation of these financial measures with peers in the industry who may also provide a similar presentation. Reconcilements for all non-U.S. GAAP measures are provided in Table 20.

EXECUTIVE OVERVIEW

Financial Performance

Aided by a favorable operating environment, we delivered 47% year-over-year diluted EPS growth, reflecting ongoing efficiency improvements, solid loan growth, higher capital return, and continued strong credit quality. Our sustained performance in these areas and our momentum going into the fourth quarter indicate that we are on track to realize our seventh consecutive year of growth in EPS, improved efficiency, and higher capital returns.

Total revenue for the third quarter of 2018 was down 1% sequentially and stable year-over-year, as lower noninterest income was largely offset by higher net interest income.

Net interest income was \$1.5 billion for the third quarter of 2018, an increase of 2% sequentially and 5% relative to the third quarter of 2017, driven by growth in average earning assets relative to both comparative periods and net interest margin expansion year-over-year. Our net interest margin decreased one basis point sequentially and increased 12 basis points compared to the third quarter of 2017. The year-over-year increase was driven primarily by higher earning asset yields arising from higher benchmark interest rates, favorable mix shift in the LHFI and securities AFS portfolios, and lower premium amortization expense, offset partially by higher rates paid on average interest-bearing liabilities. Looking to the fourth quarter of 2018, we expect net interest margin to increase between zero and two basis points compared to the third quarter of 2018, largely as a result of the September 2018 Fed Funds rate increase. See additional discussion related to revenue, noninterest income, and net interest income and margin in the "Noninterest Income" and "Net Interest Income/Margin" sections of this MD&A. Also in this MD&A, see Table 12, "Net Interest Income Asset Sensitivity," for an analysis of potential changes in net interest income due to instantaneous moves in benchmark interest rates.

Noninterest income decreased 6% sequentially and 8% compared to the third quarter of 2017. The sequential decrease was due primarily to lower capital markets-related income, other noninterest income, and client transaction-related fees, which was offset partially by higher commercial real estate related income and wealth management-related income. Year-over-year, the decrease in noninterest income was driven by lower mortgage and capital markets-related income as well as lower client transaction-related fees. We expect noninterest income in the fourth quarter of 2018 to increase relative to the third quarter of 2018, given our solid capital markets pipelines and seasonally higher fee income in certain categories, including mortgage servicing and commercial real estate related income.

Noninterest expense decreased \$6 million compared to the prior quarter and \$7 million, or 1%, compared to the third quarter of 2017. The sequential decrease was driven largely by lower employee compensation and benefits, other noninterest expense, net occupancy expense, and equipment expense, offset partially by higher outside processing and software costs and marketing and customer development costs. The decrease compared to the third quarter of 2017 was due to reductions in most expense categories, offset largely by higher outside processing and software expense in the current quarter as well as the favorable resolution of several legal matters in the third quarter of 2017.

Separately, in accordance with our previously announced decision to terminate a pension plan that we acquired as part of the NCF acquisition in 2004, we expect to reclassify approximately \$61 million of pre-tax deferred losses from AOCI into net income upon settlement of the pension plan in the fourth quarter of 2018. See additional discussion related to noninterest expense in the "Noninterest Expense" section of this MD&A.

For the third quarter of 2018, our efficiency and tangible efficiency ratios were 59.8% and 58.9%, respectively, which represent slight increases compared to the prior quarter ratios of 59.4% and 58.7%, and improvements compared to the third quarter of 2017 ratios of 60.1% and 59.2%, respectively. Given the progress we have made, we are on track to achieve our full-year tangible efficiency ratio goal of below 60% by 2019. We remain focused on continuing to create capacity to invest in technology and talent given the compelling opportunities we have to invest in growth, which we believe will create the most long-term value for our clients and our shareholders. See Table 20, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information regarding, and a reconciliation of, our tangible efficiency ratio.

Overall asset quality was strong during the third quarter and first nine months of 2018, evidenced by our 0.24% annualized net charge-offs to total average LHFI ratio and 0.47% NPL to period-end LHFI ratio. In addition, our ALLL to period-end LHFI ratio (excluding loans measured at fair value) decreased four basis points sequentially due primarily to improved economic and credit conditions. These low levels reflect the relative strength across our LHFI

portfolio, particularly in C&I, CRE, and residential mortgages, though we recognize that there could be variability moving forward. We expect to operate within an annualized net charge-offs to total average LHFII ratio of between 25 and 30 basis points for the fourth quarter of 2018. Additionally, we expect the ALLL to period-end LHFII ratio to stabilize, which would result in a provision for loan losses that modestly exceeds net charge-offs, given loan growth. See additional discussion of our credit and asset quality, in the "Loans," "Allowance for Credit Losses," and "Nonperforming Assets" sections of this MD&A.

Average LHFII grew 1% both sequentially and year-over-year as improved lending trends continued. These increases were driven largely by growth in CRE, consumer direct, and nonguaranteed residential mortgages, offset partially by a decline in residential home equity products. See additional loan discussions in the "Loans," "Nonperforming Assets," and "Net Interest Income/Margin" sections of this MD&A.

Average consumer and commercial deposits remained stable sequentially and year-over-year. Our clients continue to migrate from lower-cost deposits to CDs, in part due to our targeted strategy that allows us to retain our existing depositors and capture new market share, while also managing our asset sensitivity profile. We believe this is an effective strategy and we expect this migration towards CDs to continue as interest rates rise. Rates paid on our interest-bearing consumer and commercial deposits increased compared to the prior quarter and the third quarter of 2017 in response to rising benchmark interest rates, the move towards higher-cost deposits, and the pickup in

lending activity. We expect deposit costs to continue to trend upwards, with the trajectory influenced by the absolute level of interest rates, the pace of interest rate increases, and loan growth. We remain focused on maximizing the value proposition of deposits for our clients, outside of rate paid. Our access to alternative funding is strong should deposit growth prove to be slower than expected. See additional discussion regarding average deposits in the "Net Interest Income/Margin" section of this MD&A.

Capital and Liquidity

Our capital ratios continue to be well above regulatory requirements. The CET1 ratio decreased slightly to 9.60% at September 30, 2018, a 14 basis point decline compared to December 31, 2017, driven primarily by growth in risk weighted assets, offset partially by an increase in retained earnings. Our Tier 1 capital and Total capital ratios declined compared to December 31, 2017, due to the impact of our redemption of all outstanding shares of Series E Preferred Stock in the first quarter of 2018. Our book value and tangible book value per common share both remained relatively stable compared to December 31, 2017, as higher accumulated other comprehensive loss was offset largely by growth in retained earnings. See additional details related to our capital in the "Capital Resources" section of this MD&A and in Note 13, "Capital," to the Consolidated Financial Statements in our 2017 Annual Report on Form 10-K. Also see Table 20, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information regarding, and a reconciliation of, tangible book value per common share.

In June 2018, we announced capital plans in response to the Federal Reserve's review of and non-objection to our 2018 capital plan submitted in conjunction with the 2018 CCAR. Accordingly, during the third quarter of 2018, we increased our quarterly common stock dividend by 25% to \$0.50 per common share. We also repurchased \$500 million of our outstanding common stock during the third quarter of 2018 in conjunction with the 2018 capital plan. At September 30, 2018, we had \$1.5 billion of remaining common stock repurchase capacity available under this plan. We will repurchase a minimum of \$500 million of our outstanding common stock in the fourth quarter of 2018. See additional details related to our capital actions and share repurchases in the "Capital Resources" section of this MD&A and in Part II, Item 2 of this Form 10-Q.

Business Segments Highlights

Consumer

Our investments across Consumer Lending, together with our strategic partnerships, have collectively improved our growth, returns, and diversity. Enhanced analytics, new product offerings, and increased referrals have been key contributors to our growth in LightStream and direct consumer lending. This growth has been offset partially by declines in home equity loan balances and certain lower return portfolios such as indirect auto.

Net interest income increased \$21 million sequentially and \$80 million compared to the third quarter of 2017, resulting from continued balance sheet growth and increased deposit spreads. The average balance of our LHF portfolio was stable

sequentially and increased 1% compared to the third quarter of 2017. Noninterest income decreased 2% sequentially and decreased 8% compared to the third quarter of 2017, due primarily to lower mortgage-related income.

We continue to demonstrate positive underlying trends within PWM, as assets under management increased 3% sequentially and 7% compared to the third quarter of 2017 and wealth management-related noninterest income increased 4% year-over-year. Our value proposition for our targeted client segments is resonating in the marketplace, continuing to drive growth in new clients and in deepening relationships with existing clients.

Our efficiency ratio was 65.3% for the third quarter of 2018, compared to 62.6% for the third quarter of 2017. The increase was due primarily to the favorable resolution of a legal matter during the third quarter of 2017, which resulted in a \$55 million discrete benefit. Our branch count is down 5%, which is largely enabled by our increasing digital adoption rates and our broader strategy to leverage technology to enhance our efficiency. Our digital capabilities have received national recognition for online and mobile banking and we remain committed to improving our client experience through all of our delivery channels.

We completed the merger of our STM and Bank legal entities in the third quarter of 2018. This merger will simplify our organizational structure, enable operational efficiencies, and allow us to more fully serve the needs of our clients irrespective of whether they began their SunTrust relationship with a mortgage or another lending or deposit product. Subsequent to the merger, mortgage operations have continued under the Bank's charter. See Note 18, "Business

Segment Reporting,” to the Consolidated Financial Statements in this Form 10-Q for additional information.

Wholesale

Our consistent strategy within the Wholesale segment continues to drive good results. We saw solid loan growth across CIB, Commercial Banking, and Commercial Real Estate, reflecting our client's increased optimism in the economy, which has led to slightly higher utilization rates and increased mergers and acquisition activity. This growth also reflects the investments we have made to meet a broader set of client needs, particularly within Commercial Real Estate and aging services, in addition to our geographic expansion within Commercial Banking.

Total revenue was stable compared to the prior quarter and the third quarter of 2017. Net interest income increased \$16 million sequentially and \$25 million compared to the third quarter of 2017. These increases in net interest income were due primarily to the aforementioned loan growth. Noninterest income decreased \$15 million sequentially and \$24 million compared to the third quarter of 2017. The primary driver of these declines is the timing of certain transactions, which were pushed into the fourth quarter of 2018. Notwithstanding these declines, our underlying momentum within capital markets is strong, with mergers and acquisition and equity-related income up 7% and capital market fees from Commercial Banking, Commercial Real Estate, and PWM clients up 37% year-to-date. We are still in the early stages of executing this component of our strategy, but we are highly encouraged by our progress and believe we are uniquely positioned to succeed in this space, given our full set of capabilities and OneTeam approach.

Overall, while market conditions can create quarterly variability, our pipelines are strong and we continue to be optimistic about growth opportunities within Wholesale, as our differentiated business model attracts clients from new and existing markets.

Additional information related to our business segments can be found in Note 18, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-Q, and further discussion of our business segment results for the nine months ended September 30, 2018 and 2017 can be found in the "Business Segment Results" section of this MD&A.

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Consolidated Daily Average Balances, Income/Expense, and Average Yields Earned/Rates Paid (Dollars in millions)	Table 1 Three Months Ended						(Decrease)/Increase	
	September 30, 2018			September 30, 2017				
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Yields/Rates
ASSETS								
LHFI: ¹								
C&I	\$67,632	\$659	3.87 %	\$68,277	\$583	3.39 %	(\$645)	0.48
CRE	6,418	68	4.19	5,227	47	3.57	1,191	0.62
Commercial construction	3,300	40	4.76	3,918	38	3.86	(618)	0.90
Residential mortgages - guaranteed	502	3	2.76	512	5	3.57	(10)	(0.81)
Residential mortgages - nonguaranteed	27,584	268	3.89	26,687	255	3.82	897	0.07
Residential home equity products	9,632	121	4.97	10,778	120	4.40	(1,146)	0.57
Residential construction	193	2	4.75	333	4	4.68	(140)	0.07
Consumer student - guaranteed	6,912	88	5.05	6,535	73	4.44	377	0.61
Consumer other direct	9,726	135	5.49	8,426	104	4.91	1,300	0.58
Consumer indirect	11,770	114	3.86	11,824	105	3.51	(54)	0.35
Consumer credit cards	1,573	46	11.71	1,450	37	10.32	123	1.39
Nonaccrual ²	753	5	2.70	739	11	5.90	14	(3.20)
Total LHFI	145,995	1,549	4.21	144,706	1,382	3.79	1,289	0.42
Securities AFS: ³								
Taxable	30,927	207	2.68	30,089	187	2.49	838	0.19
Tax-exempt	625	5	2.99	504	4	2.99	121	—
Total securities AFS	31,552	212	2.69	30,593	191	2.49	959	0.20
Fed funds sold and securities borrowed or purchased under agreements to resell	1,426	7	1.79	1,189	3	0.89	237	0.90
LHFS	2,022	22	4.40	2,477	24	3.89	(455)	0.51
Interest-bearing deposits in other banks	25	—	3.90	25	—	1.88	—	2.02
Interest earning trading assets	4,789	39	3.18	5,291	31	2.38	(502)	0.80
Other earning assets ³	535	5	3.79	580	4	3.06	(45)	0.73
Total earning assets	186,344	1,834	3.90	184,861	1,635	3.51	1,483	0.39
ALLL	(1,665)			(1,748)			(83)	
Cash and due from banks	4,575			5,023			(448)	
Other assets	18,192			16,501			1,691	
Noninterest earning trading assets and derivative instruments	668			948			(280)	
Unrealized (losses)/gains on securities AFS, net	(719)			153			(872)	
Total assets	\$207,395			\$205,738			\$1,657	
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing deposits:								
NOW accounts	\$45,345	\$65	0.57 %	\$44,604	\$37	0.33 %	\$741	0.24
Money market accounts	49,926	73	0.58	53,278	43	0.32	(3,352)	0.26
Savings	6,658	—	0.02	6,535	—	0.02	123	—
Consumer time	6,413	17	1.03	5,675	11	0.76	738	0.27
Other time	8,357	33	1.55	5,552	16	1.14	2,805	0.41
Total interest-bearing consumer and commercial deposits	116,699	188	0.64	115,644	107	0.37	1,055	0.27
Brokered time deposits	1,041	4	1.54	947	3	1.28	94	0.26

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Foreign deposits	172	1	1.94	295	1	1.13	(123)	0.81
Total interest-bearing deposits	117,912	193	0.65	116,886	111	0.38	1,026	0.27
Funds purchased	1,352	7	1.94	1,689	5	1.15	(337)	0.79
Securities sold under agreements to repurchase	1,638	8	1.85	1,464	4	1.07	174	0.78
Interest-bearing trading liabilities	1,233	10	3.33	912	6	2.84	321	0.49
Other short-term borrowings	2,259	9	1.57	1,797	3	0.56	462	1.01
Long-term debt	12,922	95	2.92	11,204	76	2.70	1,718	0.22
Total interest-bearing liabilities	137,316	322	0.93	133,952	205	0.61	3,364	0.32
Noninterest-bearing deposits	42,649			43,775			(1,126)	
Other liabilities	2,465			3,046			(581)	
Noninterest-bearing trading liabilities and derivative instruments	690			392			298	
Shareholders' equity	24,275			24,573			(298)	
Total liabilities and shareholders' equity	\$207,395			\$205,738			\$1,657	
Interest rate spread			2.97 %			2.90 %		0.07
Net interest income ⁴		\$1,512			\$1,430			
Net interest income-FTE ^{4, 5}		\$1,534			\$1,467			
Net interest margin ⁶			3.22 %			3.07 %		0.15
Net interest margin-FTE ^{5, 6}			3.27			3.15		0.12

¹ Interest income includes loan fees of \$43 million and \$45 million for the three months ended September 30, 2018 and 2017, respectively.

² Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.

³ Beginning January 1, 2018, we began presenting certain equity securities previously presented in Securities available for sale as Other earning assets. For periods prior to January 1, 2018, these equity securities have been reclassified to Other earning assets for comparability.

⁴ Derivative instruments employed to manage our interest rate sensitivity decreased net interest income by \$22 million for the three months ended September 30, 2018 and increased net interest income by \$16 million for the three months ended September 30, 2017.

⁵ See Table 20, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information and reconciliations of non-U.S. GAAP performance measures. Approximately 95% of the total FTE adjustment for both the three months ended September 30, 2018 and 2017 was attributed to C&I loans.

⁶ Net interest margin is calculated by dividing annualized net interest income by average total earning assets.

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Consolidated Daily Average Balances, Income/Expense, and Average Yields Earned/Rates Paid (continued)

(Dollars in millions)	Nine Months Ended							
	September 30, 2018			September 30, 2017			(Decrease)/Increase	
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Yields/Rates
ASSETS								
LHFI: ¹								
C&I	\$67,042	\$1,880	3.75 %	\$68,822	\$1,711	3.32 %	(\$1,780)	0.43
CRE	5,787	175	4.04	5,141	130	3.38	646	0.66
Commercial construction	3,534	120	4.53	4,032	109	3.63	(498)	0.90
Residential mortgages - guaranteed	576	13	3.09	537	13	3.19	39	(0.10)
Residential mortgages - nonguaranteed	27,159	780	3.83	26,234	749	3.81	925	0.02
Residential home equity products	9,929	356	4.79	11,117	354	4.26	(1,188)	0.53
Residential construction	223	8	4.81	360	12	4.29	(137)	0.52
Consumer student - guaranteed	6,778	249	4.91	6,426	209	4.36	352	0.55
Consumer other direct	9,236	365	5.28	8,100	298	4.92	1,136	0.36
Consumer indirect	11,834	330	3.72	11,322	295	3.48	512	0.24
Consumer credit cards	1,541	133	11.47	1,404	105	10.03	137	1.44
Nonaccrual ²	729	15	2.77	781	24	4.04	(52)	(1.27)
Total LHFI	144,368	4,424	4.10	144,276	4,009	3.72	92	0.38
Securities AFS: ³								
Taxable	30,912	614	2.65	30,037	551	2.45	875	0.20
Tax-exempt	630	14	2.99	380	9	3.01	250	(0.02)
Total securities AFS	31,542	628	2.66	30,417	560	2.45	1,125	0.21
Fed funds sold and securities borrowed or purchased under agreements to resell	1,411	16	1.52	1,221	6	0.63	190	0.89
LHFS	2,055	67	4.35	2,436	70	3.82	(381)	0.53
Interest-bearing deposits in other banks	25	1	2.70	25	—	1.05	—	1.65
Interest earning trading assets	4,677	110	3.16	5,204	89	2.27	(527)	0.89
Other earning assets ³	529	15	3.75	601	13	3.00	(72)	0.75
Total earning assets	184,607	5,261	3.81	184,180	4,747	3.45	427	0.36
ALLL	(1,691)			(1,724)			(33)	
Cash and due from banks	4,706			5,158			(452)	
Other assets	17,678			16,235			1,443	
Noninterest earning trading assets and derivative instruments	650			918			(268)	
Unrealized (losses)/gains on securities AFS, net	(580)			66			(646)	
Total assets	\$205,370			\$204,833			\$537	
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing deposits:								
NOW accounts	\$45,755	\$162	0.47 %	\$44,595	\$90	0.27 %	\$1,160	0.20
Money market accounts	50,102	182	0.49	54,120	114	0.28	(4,018)	0.21
Savings	6,684	1	0.03	6,530	1	0.02	154	0.01
Consumer time	6,261	45	0.95	5,573	30	0.72	688	0.23
Other time	7,680	81	1.41	4,830	38	1.06	2,850	0.35
Total interest-bearing consumer and commercial deposits	116,482	471	0.54	115,648	273	0.32	834	0.22
Brokered time deposits	1,026	11	1.45	931	9	1.28	95	0.17

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Foreign deposits	121	2	1.85	563	4	0.86	(442)	0.99
Total interest-bearing deposits	117,629	484	0.55	117,142	286	0.33	487		0.22
Funds purchased	1,112	15	1.74	1,242	9	0.97	(130)	0.77
Securities sold under agreements to repurchase	1,630	20	1.66	1,583	10	0.85	47		0.81
Interest-bearing trading liabilities	1,219	28	3.11	968	20	2.70	251		0.41
Other short-term borrowings	2,051	22	1.41	1,852	7	0.54	199		0.87
Long-term debt	11,635	252	2.89	11,094	216	2.60	541		0.29
Total interest-bearing liabilities	135,276	821	0.81	133,881	548	0.55	1,395		0.26
Noninterest-bearing deposits	42,677			43,497			(820)	
Other liabilities	2,424			2,961			(537)	
Noninterest-bearing trading liabilities and derivative instruments	669			363			306		
Shareholders' equity	24,324			24,131			193		
Total liabilities and shareholders' equity	\$205,370			\$204,833			\$537		
Interest rate spread			3.00 %			2.90 %			0.10
Net interest income ⁴		\$4,440			\$4,199				
Net interest income-FTE ^{4, 5}		\$4,505			\$4,306				
Net interest margin ⁶			3.22 %			3.05 %			0.17
Net interest margin-FTE ^{5, 6}			3.26			3.13			0.13

¹ Interest income includes loan fees of \$121 million and \$135 million for the nine months ended September 30, 2018 and 2017, respectively.

² Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.

³ Beginning January 1, 2018, we began presenting certain equity securities previously presented in Securities available for sale as Other earning assets. For periods prior to January 1, 2018, these equity securities have been reclassified to Other earning assets for comparability.

⁴ Derivative instruments employed to manage our interest rate sensitivity decreased net interest income by \$43 million for the nine months ended September 30, 2018 and increased net interest income by \$93 million for the nine months ended September 30, 2017.

⁵ See Table 20, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information and reconciliations of non-U.S. GAAP performance measures. Approximately 95% of the total FTE adjustment for both the nine months ended September 30, 2018 and 2017 was attributed to C&I loans.

⁶ Net interest margin is calculated by dividing annualized net interest income by average total earning assets.

NET INTEREST INCOME/MARGIN (FTE)

Third Quarter of 2018

Net interest income was \$1.5 billion for the third quarter of 2018, an increase of \$67 million, or 5%, compared to the third quarter of 2017. Net interest margin increased 12 basis points, to 3.27%, compared to the third quarter of 2017. The increase was driven by a 39 basis point increase in average earning asset yields as a result of higher benchmark interest rates, favorable mix shift, and lower premium amortization expense. Specifically, average LHFY yields increased 42 basis points, driven by broad-based increases in yields across most loan categories, while yields on securities AFS increased 20 basis points. These increases were offset partially by higher rates paid on average interest-bearing liabilities.

Rates paid on average interest-bearing liabilities increased 32 basis points compared to the third quarter of 2017, driven by increases in rates paid across all interest-bearing liability categories. The average rate paid on interest-bearing deposits increased 27 basis points relative to the third quarter of 2017.

Looking to the fourth quarter of 2018, we expect net interest margin to increase between zero and two basis points compared to the third quarter of 2018, largely as a result of the September 2018 Fed Funds rate increase.

Average earning assets increased \$1.5 billion, or 1%, compared to the third quarter of 2017, driven by a \$1.3 billion, or 1%, increase in average LHFY due primarily to growth in consumer direct and CRE loans, as well as by a \$959 million, or 3%, increase in average securities AFS. These increases were offset partially by a \$1.1 billion decline in home equity products and decreases in other earning asset categories, led by a \$502 million, or 9%, decrease in average interest earning trading assets and a \$455 million, or 18%, decrease in average LHFS.

Average interest-bearing liabilities increased \$3.4 billion, or 3%, compared to the third quarter of 2017, due primarily to increases in average long-term debt, most consumer and commercial deposit categories, and short-term borrowings. Average interest-bearing consumer and commercial deposits increased \$1.1 billion, or 1%, compared to the third quarter of 2017, due primarily to growth in average time deposits in response to our targeted focus on CDs and certain corporate deposits. The continued movement from lower cost deposits to CDs allows us to retain our existing depositors and capture new market share, while also managing our asset sensitivity profile, and we expect this trend to continue as interest rates rise. These increases were offset largely by a decline in money market accounts.

Average long-term debt increased \$1.7 billion, or 15%, compared to the third quarter of 2017, due primarily to our first quarter of 2018 issuances of \$500 million of 5-year fixed rate senior notes and \$750 million of 3-year fixed-to-floating rate senior notes under the Global Bank Note program, our second quarter of 2018 issuance of \$850 million of 7-year fixed rate senior notes under the Parent Company SEC shelf registration, and our third quarter of 2018 issuances of \$500 million of 4-year and \$500 million of 6-year fixed-to-floating rate senior notes as well as \$300 million of 4-year floating rate senior notes under the Global Bank Note program. The effect of these issuances was offset partially by terminations and maturities of senior notes

and long-term FHLB advances during the fourth quarter of 2017. See the "Borrowings" section of this MD&A for additional information regarding our short-term borrowings and long-term debt.

We utilize interest rate swaps to manage interest rate risk. These instruments are primarily receive-fixed, pay-variable swaps that synthetically convert a portion of our commercial loan portfolio from floating rates, based on LIBOR, to fixed rates. At September 30, 2018, the outstanding notional balance of active swaps that qualified as cash flow hedges on variable rate commercial loans was \$12.2 billion, compared to \$12.1 billion at December 31, 2017, respectively.

In addition to the income recognized from active swaps, we recognize interest income or expense from terminated swaps that were previously designated as cash flow hedges on variable rate commercial loans. Interest expense from our commercial loan swaps was \$22 million during the third quarter of 2018, compared to income of \$13 million during the third quarter of 2017 due primarily to an increase in LIBOR. As we manage our interest rate risk we may continue to purchase additional and/or terminate existing interest rate swaps.

Remaining swaps on commercial loans have maturities through 2025 and have an average maturity of 3.1 years at September 30, 2018. The weighted average rate on the receive-fixed rate leg of the commercial loan swap portfolio was 1.71%, and the weighted average rate on the pay-variable leg was 2.26%, at September 30, 2018.

First Nine Months of 2018

Net interest income was \$4.5 billion for the first nine months of 2018, an increase of \$199 million, or 5%, compared to the first nine months of 2017. Net interest margin for the first nine months of 2018 increased 13 basis points, to 3.26%, compared to the first nine months of 2017. The increase was driven by a 38 basis point increase in average earning asset yields due to the same factors as discussed above for the third quarter of 2018.

Rates paid on average interest-bearing liabilities increased 26 basis points compared to the first nine months of 2017, driven by increases in rates paid across all interest-bearing liability categories. The average rate paid on interest-bearing deposits increased 22 basis points.

Average earning assets increased \$427 million, compared to the first nine months of 2017, driven primarily by a \$1.1 billion, or 4%, increase in average securities AFS, offset in part by a \$527 million, or 10%, decrease in average interest earning trading assets and a \$381 million, or 16%, decrease in average LHFS. See the "Loans" section in this MD&A for additional discussion regarding loan activity.

Average interest-bearing liabilities increased \$1.4 billion, or 1%, compared to the first nine months of 2017, due primarily to increases across most consumer and commercial deposit categories as well as average long-term debt, offset largely by declines in money market accounts and foreign deposits. Average interest-bearing consumer and commercial deposits increased \$834 million, or 1%, due primarily to the same factors as discussed above for the third quarter of 2018.

Foregone Interest

Foregone interest income from NPLs reduced net interest margin by one basis point and two basis points for the three and nine months ended September 30, 2018, respectively. The effect of foregone interest income from NPLs on net interest margin was less than one basis point for both the three and nine months ended September 30, 2017. See additional discussion regarding our

credit quality in the “Loans,” “Allowance for Credit Losses,” and “Nonperforming Assets” sections of this MD&A. In addition, Table 1 in this MD&A contains more detailed information regarding average balances, yields earned, rates paid, and associated impacts on net interest income.

NONINTEREST INCOME

	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
(Dollars in millions)						
Service charges on deposit accounts	\$144	\$154	(6)%	\$433	\$453	(4)%
Other charges and fees ¹	89	89	—	264	270	(2)
Card fees	75	86	(13)	241	255	(5)
Investment banking income ¹	150	169	(11)	453	501	(10)
Trading income	42	51	(18)	137	148	(7)
Trust and investment management income	80	79	1	230	229	—
Retail investment services	74	69	7	219	208	5
Mortgage servicing related income	43	46	(7)	138	148	(7)
Mortgage production related income	40	61	(34)	118	170	(31)
Commercial real estate related income	24	17	41	66	61	8
Net securities gains	—	—	—	1	1	—
Other noninterest income	21	25	(16)	108	76	42
Total noninterest income	\$782	\$846	(8)%	\$2,408	\$2,520	(4)%

Beginning July 1, 2018, we began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability. Capital market bridge fee income totaled \$7 million and \$3 million for the three months ended September 30, 2018 and 2017, and \$12 million and \$21 million for the nine months ended September 30, 2018 and 2017, respectively.

Noninterest income decreased \$64 million, or 8%, compared to the third quarter of 2017 and decreased \$112 million, or 4%, compared to the nine months ended September 30, 2017. These decreases were driven primarily by lower mortgage and capital markets-related income as well as lower client transaction-related fees. The decrease compared to the nine months ended September 30, 2017 was offset partially by a \$32 million, or 42%, increase in other noninterest income.

Client transaction-related fee income, which includes service charges on deposit accounts, other charges and fees, and card fees, decreased \$21 million, or 6%, compared to the third quarter of 2017 and decreased \$40 million, or 4%, compared to the nine months ended September 30, 2017. These decreases were driven, in part, by a change in our process for recognizing card rewards expenses, which effectively resulted in four months of rewards expenses being recognized in the third quarter of 2018, as well as the impact of our January 1, 2018 adoption of the revenue

recognition accounting standard, which resulted in the netting of certain expense items against this income. The revenue recognition accounting standard decreased client transaction-related fee income by \$13 million and \$28 million for the three and nine months ended September 30, 2018, respectively. See Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-Q for additional information regarding our adoption of this accounting standard.

Investment banking income decreased \$19 million, or 11%, compared to the third quarter of 2017 and decreased \$48 million, or 10%, compared to the nine months ended September 30, 2017. The decrease compared to the third quarter of 2017 was driven primarily by lower loan syndication and investment grade bond origination activity. The decrease compared to the nine months ended September 30, 2017 was due primarily to decreased activity in loan syndications, leveraged finance, mergers and acquisitions, and investment grade bond originations. The declines compared to both prior year periods were offset partially by strong deal flow activity in equity offerings as well as the impact of our January 1, 2018 adoption of the revenue recognition accounting standard. The revenue recognition accounting standard increased investment banking income by \$4 million and \$13 million for the three and nine months ended September 30, 2018, respectively.

Trading income decreased \$9 million, or 18%, compared to the third quarter of 2017 and decreased \$11 million, or 7%, compared to the nine months ended September 30, 2017. These decreases were due largely to lower fixed income sales and trading revenue.

Retail investment services income increased \$5 million, or 7%, compared to the third quarter of 2017 and increased \$11 million, or 5%, compared to the nine months ended September 30, 2017. These increases were driven primarily by growth in assets under management.

Mortgage servicing related income decreased \$3 million, or 7%, compared to the third quarter of 2017 and decreased \$10 million, or 7%, compared to the nine months ended September 30, 2017. These decreases were due to lower net hedge performance and higher servicing asset decay, offset largely by higher servicing fee income. The UPB of mortgage loans in the servicing portfolio was \$170.5 billion at September 30, 2018, compared to \$165.3 billion at September 30, 2017.

Mortgage production related income decreased \$21 million, or 34%, compared to the third quarter of 2017 and decreased \$52 million, or 31%, compared to the nine months ended September 30, 2017. These decreases were driven by lower gain on sale margins and reduced refinance activity as well as less favorable channel mix. Mortgage application volume decreased 1% and closed loan volume remained relatively stable compared to the third quarter of 2017. Compared to the nine months ended September 30, 2017, both mortgage application and closed loan volume decreased 3%.

Commercial real estate related income increased \$7 million, or 41%, compared to the third quarter of 2017 and increased \$5 million, or 8%, compared to the nine months ended September 30, 2017. These increases were due primarily to higher transactional activity in our agency lending business as well as higher tax credit-related income from our investments in affordable housing partnerships.

Other noninterest income decreased \$4 million, or 16%, compared to the third quarter of 2017 and increased \$32 million, or 42%, compared to the nine months ended September 30, 2017. The decrease compared to the third quarter of 2017 was driven primarily by mark-to-market adjustments on equity investments and a decrease in net gains on the sale of leases recognized in the current quarter. The increase compared to the nine months ended September 30, 2017 was due primarily to \$16 million of mark-to-market net gains on equity investments recognized during the first nine months of 2018 as well as a \$23 million remeasurement gain on an equity investment recognized in the first quarter of 2018, following our full adoption of the recognition and measurement of financial assets accounting standard on January 1, 2018. See Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-Q for additional information regarding our adoption of this accounting standard.

We expect noninterest income in the fourth quarter of 2018 to increase relative to the third quarter of 2018, given our solid capital markets pipelines and seasonally higher fee income in certain categories, including mortgage servicing and commercial real estate related income.

NONINTEREST EXPENSE

(Dollars in millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
Employee compensation	\$719	\$725	(1)%	\$2,141	\$2,152	(1)%
Employee benefits	76	81	(6)	310	302	3
Total personnel expenses	795	806	(1)	2,451	2,454	—
Outside processing and software	234	203	15	667	612	9
Net occupancy expense	86	94	(9)	270	280	(4)
Marketing and customer development	45	45	—	127	129	(2)
Equipment expense	40	40	—	124	123	1
Regulatory assessments	39	47	(17)	118	143	(17)
Amortization	19	22	(14)	51	49	4
Operating losses/(gains)	18	(34)	NM	40	17	NM
Other noninterest expense	108	168	(36)	343	436	(21)
Total noninterest expense	\$1,384	\$1,391	(1)%	\$4,191	\$4,243	(1)%

¹ "NM" - Not meaningful. Those changes over 100 percent were not considered to be meaningful.

Noninterest expense decreased \$7 million, or 1%, compared to the third quarter of 2017 and decreased \$52 million, or 1%, compared to the nine months ended September 30, 2017. The decrease compared to the third quarter of 2017 was due to reductions in most expense categories, offset largely by higher outside processing and software expense in the current quarter as well as the favorable resolution of several legal matters in the third quarter of 2017. The decrease compared to the nine months ended September 30, 2017 was driven largely by lower other noninterest expense related to ongoing efficiency initiatives, offset partially by higher outside processing and software expense.

Personnel expenses decreased \$11 million, or 1%, compared to the third quarter of 2017 and decreased \$3 million compared to the nine months ended September 30, 2017. The \$11 million decrease compared to the third quarter of 2017 was due primarily to lower compensation and benefit-related costs in the current quarter, offset partially by higher contract programming costs.

Outside processing and software expense increased \$31 million, or 15%, compared to the third quarter of 2017 and increased \$55 million, or 9%, compared to the nine months ended September 30, 2017. These increases were driven primarily by higher software-related costs resulting from the amortization of new and upgraded technology assets.

Net occupancy expense decreased \$8 million, or 9%, compared to the third quarter of 2017 and decreased \$10 million, or 4%, compared to the nine months ended September 30, 2017. These decreases were driven by lease termination gains recognized in the second and third quarters of 2018.

Regulatory assessments expense decreased \$8 million, or 17%, compared to the third quarter of 2017 and decreased \$25 million, or 17%, compared to the nine months ended September 30, 2017. These decreases were driven by lower FDIC insurance premiums as a result of our improved earnings profile and higher levels of unsecured debt.

Amortization expense decreased \$3 million, or 14%, compared to the third quarter of 2017 and increased \$2 million, or 4%, compared to the nine months ended September 30, 2017. The decrease compared to the third quarter of 2017 was driven by lower amortization expense on other intangible assets. The increase compared to the nine months ended September 30, 2017 was driven by an increase in our community development investments, which are amortized over the life of the related tax credits that these investments generate. See the "Community Development Investments" section of Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in this Form 10-Q for additional information regarding these investments.

Operating losses increased \$52 million compared to the third quarter of 2017 and increased \$23 million compared to the nine months ended September 30, 2017. These increases were due primarily to the favorable resolution of several legal matters in the third quarter of 2017, which resulted in \$58 million of discrete benefits.

Other noninterest expense decreased \$60 million, or 36%, compared to the third quarter of 2017 and decreased \$93 million, or 21%, compared to the nine months ended September 30, 2017. These decreases were driven primarily by lower severance-related expenses and software writedowns in the current quarter.

Separately, in accordance with our previously announced decision to terminate a pension plan that we acquired as part of the NCF acquisition in 2004, we expect to reclassify approximately \$61 million of pre-tax deferred losses from AOCI into net income upon settlement of the pension plan in the fourth quarter of 2018.

LOANS

Our disclosures about the credit quality of our loan portfolio and the related credit reserves (i) describe the nature of credit risk inherent in the loan portfolio, (ii) provide information on how we analyze and assess credit risk in arriving at an adequate and appropriate ALLL, and (iii) explain changes in the ALLL as well as reasons for those changes.

Our loan portfolio consists of two loan segments: Commercial loans and Consumer loans. Loans are assigned to these segments based on the type of borrower, purpose, and/or our underlying credit management processes. Additionally, we further disaggregate each loan segment into loan types based on common characteristics within each loan segment.

Commercial Loans

C&I loans include loans to fund business operations or activities, loans secured by owner-occupied properties, corporate credit cards, and other wholesale lending activities. Commercial loans secured by owner-occupied properties are classified as C&I loans because the primary source of loan repayment for these properties is business income and not real estate operations. CRE and Commercial construction loans include investor loans where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate.

Consumer Loans

Residential mortgages, both guaranteed (by a federal agency or GSE) and nonguaranteed, consist of loans secured by 1-4 family homes; mostly prime, first-lien loans. Residential home equity products consist of equity lines of credit and closed-end equity loans secured by residential real estate that may be in either a first lien or junior lien position.

Residential construction loans include residential real estate secured owner-occupied construction-to-perm loans and lot loans.

Consumer loans also include Guaranteed student loans, Indirect loans (consisting of loans secured by automobiles, boats, and recreational vehicles), Other direct loans (consisting primarily of unsecured loans, direct auto loans, loans secured by negotiable collateral, and private student loans), and Credit cards.

The composition of our loan portfolio is presented in Table 4:

Loan Portfolio by Types of Loans Table 4

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(Dollars in millions)	September 30, December 31,	
	2018	2017
Commercial loans:		
C&I ¹	\$68,203	\$66,356
CRE	6,618	5,317
Commercial construction	3,137	3,804
Total commercial LHFI	77,958	75,477
Consumer loans:		
Residential mortgages - guaranteed	452	560
Residential mortgages - nonguaranteed ²	28,187	27,136
Residential home equity products	9,669	10,626
Residential construction	197	298
Guaranteed student	7,039	6,633
Other direct	10,100	8,729
Indirect	12,010	12,140
Credit cards	1,603	1,582
Total consumer LHFI	69,257	67,704
LHFI	\$147,215	\$143,181
LHFS ³	\$1,961	\$2,290

¹ Includes \$3.8 billion and \$3.7 billion of lease financing and \$838 million and \$778 million of installment loans at September 30, 2018 and December 31, 2017, respectively.

² Includes \$168 million and \$196 million of LHFI measured at fair value at September 30, 2018 and December 31, 2017, respectively.

³ Includes \$1.8 billion and \$1.6 billion of LHFS measured at fair value at September 30, 2018 and December 31, 2017, respectively.

Table 5 presents our LHFI portfolio by geography (based on the U.S. Census Bureau's classifications of U.S. regions):

Table 5

(Dollars in millions)	September 30, 2018					
	Commercial LHFI		Consumer LHFI		Total LHFI	
	Balance	% of Total Commercial	Balance	% of Total Consumer	Balance	% of Total LHFI
South region:						
Florida	\$13,035	17 %	\$13,250	19 %	\$26,285	18 %
Georgia	10,519	13	8,485	12	19,004	13
Virginia	6,349	8	7,457	11	13,806	9
Maryland	4,317	6	6,148	9	10,465	7
North Carolina	4,667	6	5,354	8	10,021	7
Texas	4,166	5	4,512	7	8,678	6
Tennessee	4,248	5	2,938	4	7,186	5
South Carolina	1,505	2	2,396	3	3,901	3
District of Columbia	1,653	2	1,063	2	2,716	2
Other Southern states	2,669	3	2,536	4	5,205	4
Total South region	53,128	68	54,139	78	107,267	73
Northeast region:						
New York	5,184	7	1,226	2	6,410	4
Pennsylvania	1,664	2	1,254	2	2,918	2
New Jersey	1,427	2	731	1	2,158	1
Other Northeastern states	2,691	3	948	1	3,639	2
Total Northeast region	10,966	14	4,159	6	15,125	10
West region:						
California	4,349	6	3,463	5	7,812	5
Other Western states	2,466	3	2,588	4	5,054	3
Total West region	6,815	9	6,051	9	12,866	9
Midwest region:						
Illinois	1,903	2	1,074	2	2,977	2
Ohio	792	1	763	1	1,555	1
Missouri	914	1	460	1	1,374	1
Other Midwestern states	2,084	3	2,534	4	4,618	3
Total Midwest region	5,693	7	4,831	7	10,524	7
Foreign loans	1,356	2	77	—	1,433	1
Total	\$77,958	100 %	\$69,257	100 %	\$147,215	100 %

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(Dollars in millions)	December 31, 2017					
	Commercial LHFI		Consumer LHFI		Total LHFI	
	Balance	% of Total Commercial	Balance	% of Total Consumer	Balance	% of Total LHFI
South region:						
Florida	\$12,792	17 %	\$13,474	20 %	\$26,266	18 %
Georgia	10,250	14	8,462	12	18,712	13
Virginia	6,580	9	7,545	11	14,125	10
Maryland	4,104	5	6,095	9	10,199	7
North Carolina	4,482	6	5,354	8	9,836	7
Texas	3,954	5	4,122	6	8,076	6
Tennessee	4,101	5	2,985	4	7,086	5
South Carolina	1,155	2	2,385	4	3,540	2
District of Columbia	1,501	2	1,022	2	2,523	2
Other Southern states	2,791	4	2,452	4	5,243	4
Total South region	51,710	69	53,896	80	105,606	74
Northeast region:						
New York	4,731	6	1,139	2	5,870	4
Pennsylvania	1,458	2	1,189	2	2,647	2
New Jersey	1,327	2	689	1	2,016	1
Other Northeastern states	2,387	3	895	1	3,282	2
Total Northeast region	9,903	13	3,912	6	13,815	10
West region:						
California	4,893	6	3,246	5	8,139	6
Other Western states	2,172	3	2,235	3	4,407	3
Total West region	7,065	9	5,481	8	12,546	9
Midwest region:						
Illinois	1,637	2	922	1	2,559	2
Ohio	718	1	688	1	1,406	1
Missouri	922	1	395	1	1,317	1
Other Midwestern states	2,211	3	2,336	3	4,547	3
Total Midwest region	5,488	7	4,341	6	9,829	7
Foreign loans	1,311	2	74	—	1,385	1
Total	\$75,477	100 %	\$67,704	100 %	\$143,181	100 %

Loans Held for Investment

LHFI totaled \$147.2 billion at September 30, 2018, an increase of \$4.0 billion from December 31, 2017, driven largely by increases in C&I, consumer direct, CRE, nonguaranteed residential mortgages, and guaranteed student loans, offset partially by decreases in residential home equity products, commercial construction, and consumer indirect loans.

Average LHFI for the third quarter of 2018 totaled \$146.0 billion, up \$1.8 billion, or 1%, compared to the prior quarter, driven primarily by the same factors as discussed above related to the change in period end LHFI. See Table 1 and the "Net Interest Income/Margin" section in this MD&A for more detailed information regarding average LHFI balances, yields earned, and associated impacts on net interest income.

Commercial loans increased \$2.5 billion, or 3%, during the first nine months of 2018, driven by a \$1.8 billion, or 3%, increase in C&I loans resulting from growth in a number of industry verticals and client segments. CRE loans also increased \$1.3 billion, or 24%, driven by portfolio diversification and increased loan production, offset partially by a \$667 million, or 18%, decrease in commercial construction loans due to payoffs and paydowns.

Consumer loans increased \$1.6 billion during the first nine months of 2018, driven by a \$1.4 billion, or 16%, increase in other direct, a \$1.1 billion, or 4%, increase in nonguaranteed residential mortgages, and a \$406 million, or 6%, increase in guaranteed student loans. These increases were offset partially by a \$957 million, or 9%, decrease in residential home equity products and a \$130 million, or 1%, decline in indirect loans during the first nine months of 2018.

At September 30, 2018, 40% of our residential home equity product balance was in a first lien position and 60% was in a junior lien position. For residential home equity products in a junior lien position at September 30, 2018, we own or service 32% of the balance of loans that are senior to the home equity product.

Loans Held for Sale

LHFS decreased \$329 million, or 14%, during the first nine months of 2018, due primarily to loan sales exceeding mortgage production.

Asset Quality

Our asset quality metrics were strong during the third quarter and first nine months of 2018, evidenced by our low annualized net charge-offs to total average LHFI ratio and low NPLs to period-end LHFI ratio. These low levels reflect the relative strength across our LHFI portfolio, particularly in C&I, CRE, and residential mortgages, though we recognize that there could be variability moving forward. See the “Allowance for Credit Losses” and “Nonperforming Assets” sections of this MD&A for detailed information regarding our net charge-offs and NPLs.

NPAs increased \$13 million, or 2%, during the first nine months of 2018, driven primarily by C&I and CRE borrower downgrades as well as the impact of hurricane-related forbearances, offset largely by charge-offs, paydowns, and the return to accrual status of certain nonperforming home equity products. At both September 30, 2018 and December 31, 2017, the ratio of NPLs to period-end LHFI was 0.47%.

Early stage delinquencies were 0.74% and 0.80% of total loans at September 30, 2018 and December 31, 2017, respectively. Early stage delinquencies, excluding government-guaranteed loans, were 0.24% and 0.32% at September 30, 2018 and December 31, 2017, respectively. The reductions in early

stage delinquencies resulted primarily from improvements in consumer loans.

For the third quarter of 2018, net charge-offs totaled \$88 million, compared to \$73 million in the prior quarter and \$78 million in the third quarter of 2017. The annualized net charge-offs to total average LHFI ratio was 0.24% and 0.21% for the third quarter of 2018 and 2017, respectively, and was 0.20% for the prior quarter. For the first nine months of 2018 and 2017, net charge-offs totaled \$240 million and \$261 million, and the annualized net charge-offs to total average LHFI ratio was 0.22% and 0.24%, respectively. The decline in net charge-offs compared to the first nine months of 2017 was driven primarily by overall asset quality improvements and lower commercial net charge-offs. We expect to operate within an annualized net charge-offs to total average LHFI ratio of between 25 and 30 basis points for the fourth quarter of 2018. Additionally, we expect the ALLL to period-end LHFI ratio to stabilize, which would result in a provision for loan losses that modestly exceeds net charge-offs, given loan growth.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. A rollforward of our allowance for credit losses and summarized credit loss experience is shown in Table 6. See Note 1, "Significant Accounting Policies," and the "Critical Accounting Policies"

MD&A section of our 2017 Annual Report on Form 10-K, as well as Note 7, "Allowance for Credit Losses," to the Consolidated Financial Statements in this Form 10-Q for further information regarding our ALLL accounting policy, determination, and allocation.

Summary of Credit Losses Experience

Table 6

(Dollars in millions)	Three Months Ended September 30			Nine Months Ended September 30			% Change 4
	2018	2017	% Change 4	2018	2017	% Change 4	
Allowance for Credit Losses							
Balance - beginning of period	\$1,722	\$1,803	(4)%	\$1,814	\$1,776	2	%
Provision/(benefit) for unfunded commitments	—	1	(100)	(7)	6		NM
Provision for loan losses:							
Commercial LHFI	36	5	NM	37	89	(58))
Consumer LHFI	25	114	(78)	91	235	(61))
Total provision for loan losses	61	119	(49)	128	324	(60))
Charge-offs:							
Commercial LHFI	(51)	(33)	55	(95)	(122)	(22))
Consumer LHFI	(71)	(76)	(7)	(234)	(235)	—)
Total charge-offs	(122)	(109)	12	(329)	(357)	(8))
Recoveries:							
Commercial LHFI	9	11	(18)	19	32	(41))
Consumer LHFI	25	20	25	70	64	9)
Total recoveries	34	31	10	89	96	(7))
Net charge-offs	(88)	(78)	13	(240)	(261)	(8))
Balance - end of period	\$1,695	\$1,845	(8)%	\$1,695	\$1,845	(8)%)
Components:							
ALLL				\$1,623	\$1,772	(8)%)
Unfunded commitments reserve ¹				72	73	(1))
Allowance for credit losses				\$1,695	\$1,845	(8)%)
Average LHFI	\$145,995	\$144,706	1	\$144,368	\$144,276	—	%
Period-end LHFI outstanding				147,215	144,264	2	
Ratios:							
ALLL to period-end LHFI ²				1.10	1.23	(11)%)
ALLL to NPLs ³				2.35x	2.55x	(8))
Net charge-offs to total average LHFI (annualized)	0.24	0.21	14	0.22	0.24	(8))

¹ The unfunded commitments reserve is recorded in Other liabilities in the Consolidated Balance Sheets.

² \$168 million and \$206 million of LHFI measured at fair value at September 30, 2018 and 2017, respectively, were excluded from period-end LHFI in the calculation, as no allowance is recorded for loans measured at fair value. We believe that this presentation more appropriately reflects the relationship between the ALLL and loans that attract an allowance.

³ \$6 million and \$3 million of NPLs measured at fair value at September 30, 2018 and 2017, respectively, were excluded from NPLs in the calculation, as no allowance is recorded for NPLs measured at fair value. We believe that this presentation more appropriately reflects the relationship between the ALLL and NPLs that attract an allowance.

⁴ "NM" - Not meaningful. Those changes over 100 percent were not considered to be meaningful.

Provision for Credit Losses

The total provision for credit losses includes the provision for loan losses and the provision/(benefit) for unfunded commitments. The provision for loan losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. For the third quarter of 2018, the total provision for loan losses decreased \$58 million compared to the third quarter of 2017, due to elevated hurricane-related reserves in the third quarter of 2017 and improved economic and credit conditions resulting in a lower ALLL. For the first nine months of 2018, the total provision for loan losses decreased \$196 million compared to the same period in 2017, driven primarily by a lower ALLL and lower net charge-offs.

Our quarterly review processes to determine the level of reserves and provision are informed by trends in our LHFI portfolio (including historical loss experience, expected loss calculations, delinquencies, performing status, size and composition of the loan portfolio, and concentrations within the portfolio) combined with a view on economic conditions. In addition to internal credit quality metrics, the ALLL estimate is impacted by other indicators of credit risk associated with the portfolio, such as geopolitical and economic risks, and the increasing availability of credit and resultant higher levels of leverage for consumers and commercial borrowers.

Allowance for Loan and Lease Losses

ALLL by Loan Segment Table 7
 (Dollars in millions) September 30, 2018, December 31, 2017

ALLL:

Commercial LHFI	\$1,062		\$1,101	
Consumer LHFI	561		634	
Total	\$1,623		\$1,735	
Segment ALLL as a % of total ALLL:				
Commercial LHFI	65	%	63	%
Consumer LHFI	35		37	
Total	100	%	100	%
Segment LHFI as a % of total LHFI:				
Commercial LHFI	53	%	53	%
Consumer LHFI	47		47	
Total	100	%	100	%

The ALLL decreased \$112 million, or 6%, from December 31, 2017, to \$1.6 billion at September 30, 2018. The decrease was due primarily to a reduction in the amount of reserves held for hurricane-related losses and improved economic and credit conditions, offset partially by loan growth. The ALLL to period-end LHFI ratio (excluding loans measured at fair value) decreased 11 basis points from December 31, 2017, to 1.10% at September 30, 2018. The ratio of the ALLL to NPLs (excluding NPLs measured at fair value) decreased to 2.35x at September 30, 2018, compared to 2.59x at December 31, 2017, due to a decrease in the ALLL and an increase in NPLs.

NONPERFORMING ASSETS

NPA and TDR Composition and Other Credit Data

(Dollars in millions)	September 30, December 31,		Table 8	
	2018	2017	% Change	
NPAs:				
Commercial NPLs:				
C&I	\$256	\$215	19	%
CRE	43	24	79	
Commercial construction	—	1	(100))
Total commercial NPLs	299	240	25	
Consumer NPLs:				
Residential mortgages - nonguaranteed	225	206	9	
Residential home equity products	149	203	(27))
Residential construction	9	11	(18))
Other direct	7	7	—	
Indirect	6	7	(14))
Total consumer NPLs	396	434	(9))
Total nonaccrual loans/NPLs ¹	\$695	\$674	3	%
OREO ²	\$52	\$57	(9))%
Other repossessed assets	7	10	(30))
Total NPAs	\$754	\$741	2	%
Accruing LHFI past due 90 days or more	\$1,482	\$1,405	5	%
Accruing LHFS past due 90 days or more	2	2	—	
TDRs:				
Accruing restructured loans	\$2,327	\$2,468	(6))%
Nonaccruing restructured loans ¹	345	286	21	
Ratios:				
NPLs to period-end LHFI	0.47	% 0.47	%	— %
NPAs to period-end LHFI, OREO, and other repossessed assets	0.51	0.52	(2))

¹ Nonaccruing restructured loans are included in total nonaccrual loans/NPLs.

² Does not include foreclosed real estate related to loans insured by the FHA or guaranteed by the VA. Proceeds due from the FHA and the VA are recorded as a receivable in Other assets in the Consolidated Balance Sheets until the property is conveyed and the funds are received. The receivable related to proceeds due from the FHA and the VA totaled \$49 million and \$45 million at September 30, 2018 and December 31, 2017, respectively.

Problem loans or loans with potential weaknesses, such as nonaccrual loans, loans over 90 days past due and still accruing, and TDR loans, are disclosed in the NPA table above. Loans with known potential credit problems that may not otherwise be disclosed in this table include accruing criticized commercial loans, which are disclosed along with additional credit quality information in Note 6, "Loans," to the Consolidated Financial Statements in this Form 10-Q. At September 30, 2018 and December 31, 2017, there were no known significant potential problem loans that are not otherwise disclosed. See the "Critical Accounting Policies" MD&A section of our 2017 Annual Report on Form 10-K for additional information regarding our policy on loans classified as nonaccrual.

NPAs increased \$13 million, or 2%, during the first nine months of 2018. The increase in NPAs was driven primarily by commercial borrower downgrades and hurricane-related forbearances on residential mortgage loans, offset largely by the return to accrual status of certain nonperforming home equity products.

Nonperforming Loans

NPLs at September 30, 2018 totaled \$695 million, an increase of \$21 million, or 3%, from December 31, 2017, driven primarily by increases in C&I, CRE, and residential mortgage NPLs, offset largely by a decrease in home equity NPLs. The ratio of NPLs to period-end LHFII was 0.47% at both September 30, 2018 and December 31, 2017.

Commercial NPLs increased \$59 million, or 25%, during the first nine months of 2018 driven by increases in C&I and CRE NPLs of \$41 million, or 19%, and \$19 million, or 79%, respectively, due primarily to borrower downgrades, offset partially by charge-offs and paydowns.

Consumer NPLs decreased \$38 million, or 9%, from December 31, 2017, driven by the return to accrual status of certain home equity products, offset partially by an increase in residential mortgage NPLs due primarily to hurricane-related forbearances.

Interest income on consumer nonaccrual loans, if received, is recognized on a cash basis. Interest income on commercial nonaccrual loans is not generally recognized until after the principal amount has been reduced to zero.

Interest income

recognized on nonaccrual loans (which includes out-of-period interest for certain commercial nonaccrual loans) totaled \$5 million and \$11 million for the third quarter of 2018 and 2017, and totaled \$15 million and \$24 million for the first nine months of 2018 and 2017, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$12 million and \$11 million would have been recognized for the third quarter of 2018 and 2017, and \$34 million and \$33 million for the first nine months of 2018 and 2017, respectively.

Other Nonperforming Assets

OREO decreased \$5 million, or 9%, during the first nine months of 2018 to \$52 million at September 30, 2018. Sales of OREO resulted in proceeds of \$47 million and \$46 million during the first nine months of 2018 and 2017, resulting in net gains of \$7 million and \$8 million, respectively, inclusive of valuation reserves.

Most of our OREO properties are located in Florida, Maryland, Virginia, and South Carolina. Residential and commercial real estate properties comprised 93% and 4%, respectively, of total OREO at September 30, 2018, with the remainder related to land. Upon foreclosure, the values of these properties were re-evaluated and, if necessary, written down to their then-current estimated fair value less estimated costs to sell. Any further decreases in property values could result in additional losses as they are regularly revalued. See the "Non-recurring Fair Value Measurements" section within Note 16, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q for additional information.

Gains and losses on the sale of OREO are recorded in Other noninterest expense in the Consolidated Statements of Income. Sales of OREO and the related gains or losses are highly dependent on our disposition strategy. We are actively managing and disposing of these assets to minimize future losses and to maintain compliance with regulatory requirements.

Accruing loans past due 90 days or more are included in LHFI and LHFS, and totaled \$1.5 billion and \$1.4 billion at September 30, 2018 and December 31, 2017, respectively. Of these, 97% and 98% were government-guaranteed at September 30, 2018 and December 31, 2017, respectively. Accruing LHFI past due 90 days or more increased \$77 million, or 5%, during the first nine months of 2018, driven by a \$125 million, or 12%, increase in guaranteed student loans, offset partially by a \$59 million, or 17%, decrease in guaranteed residential mortgages.

Restructured Loans

At September 30, 2018, our total TDR portfolio totaled \$2.7 billion and was comprised of \$2.5 billion, or 95%, of consumer loans (predominantly first and second lien residential mortgages and home equity lines of credit) and \$128 million, or 5%, of commercial loans. Total TDRs decreased \$82 million from December 31, 2017, as a \$141 million, or 6%, decrease in accruing TDRs was offset partially by a \$59 million, or 21%, increase in nonaccruing TDRs. Generally, interest income on restructured loans that have met sustained performance criteria and returned to accruing status is recognized according to the terms of the restructuring. Such recognized interest income totaled \$26 million and \$27 million for the third quarter of 2018 and 2017, and totaled \$80 million and \$81 million for the first nine months of 2018 and 2017, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$30 million and \$32 million for the third quarter of 2018 and 2017, and \$93 million and \$98 million for the first nine months of 2018 and 2017, respectively, would have been recognized. For additional information regarding our restructured loans and associated accounting policies, see Note 1, "Significant Accounting Policies," and the "Nonperforming Assets" MD&A section in our 2017 Annual Report on Form 10-K, as well as Note 6, "Loans," to the Consolidated Financial Statements in this Form 10-Q.

SELECTED FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following is a discussion of the more significant financial assets and financial liabilities that are measured at fair value on the Consolidated Balance Sheets at September 30, 2018 and December 31, 2017. For a complete discussion of our financial instruments measured at fair value and the methodologies used to estimate the fair values of our financial instruments, see Note 16, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q.

Trading Assets and Liabilities and Derivative Instruments

Trading assets and derivative instruments increased \$583 million, or 11%, compared to December 31, 2017. This increase was due primarily to increases in CP, corporate and other debt securities, federal agency securities, U.S. Treasury securities, agency MBS, and municipal securities, offset partially by a decrease in derivative instruments. These changes were driven

by normal activity in the trading portfolio product mix as we manage our business and continue to meet our clients' needs. Trading liabilities and derivative instruments increased \$580 million, or 45%, compared to December 31, 2017, driven by increases in derivative instruments, U.S. Treasury securities, and corporate and other debt securities. For composition and valuation assumptions related to our trading products, as well as additional information on our derivative instruments, see Note 4, "Trading Assets and Liabilities and Derivative Instruments," Note 15, "Derivative Financial Instruments," and the "Trading Assets and Derivative Instruments and Investment Securities" section of Note 16, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q. Also, for a discussion of market risk associated with our trading activities, refer to the "Market Risk Management—Market Risk from Trading Activities" section of this MD&A.

Investment Securities

Investment Securities Portfolio Composition

Table 9

(Dollars in millions)	September 30, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities AFS:				
U.S. Treasury securities	\$4,275	\$—	\$142	\$4,133
Federal agency securities	224	2	3	223
U.S. states and political subdivisions	621	3	22	602
MBS - agency residential	23,112	111	718	22,505
MBS - agency commercial	2,713	1	112	2,602
MBS - non-agency commercial	943	—	38	905
Corporate and other debt securities	14	—	—	14
Total securities AFS	\$31,902	\$117	\$1,035	\$30,984

(Dollars in millions)	December 31, 2017 ¹			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities AFS:				
U.S. Treasury securities	\$4,361	\$2	\$32	\$4,331
Federal agency securities	257	3	1	259
U.S. states and political subdivisions	618	7	8	617
MBS - agency residential	22,616	222	134	22,704
MBS - agency commercial	2,121	3	38	2,086
MBS - non-agency residential	55	4	—	59
MBS - non-agency commercial	862	7	3	866
ABS	6	2	—	8
Corporate and other debt securities	17	—	—	17
Total securities AFS	\$30,913	\$250	\$216	\$30,947

¹ Beginning January 1, 2018, we reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Reclassifications have been made to previously reported amounts for comparability. See Note 9, "Other Assets," to the Consolidated Financial Statements in this Form 10-Q for additional information.

The investment securities portfolio is managed as part of our overall liquidity management and ALM process to optimize income and portfolio value over an entire interest rate cycle while mitigating the associated risks. Changes in the size and composition of the portfolio reflect our efforts to maintain a high quality, liquid portfolio, while managing our interest rate risk profile. The amortized cost of the portfolio increased \$989 million during the nine months ended September 30, 2018, due primarily to increased holdings of agency commercial and residential MBS as well as non-agency commercial MBS, offset partially by decreased holdings of U.S. Treasury securities, non-agency residential MBS, and federal agency securities. The fair value of the securities AFS portfolio increased \$37 million compared to December 31, 2017, due primarily to the aforementioned increases in securities holdings, offset largely by a \$952 million increase in net unrealized losses associated with increased market interest rates. At September 30, 2018, the overall securities AFS portfolio was in a \$918 million net unrealized loss position, compared to a net unrealized gain position of \$34 million at December 31, 2017. The securities AFS portfolio had an effective duration of 4.8 years at September 30, 2018 compared to 4.5 years at December 31, 2017.

Net realized gains related to the sale of securities AFS were immaterial for both the nine months ended September 30, 2018 and 2017. There were no OTTI credit losses recognized in earnings for the nine months ended September 30, 2018 and 2017. For additional information on our accounting policies, composition, and valuation assumptions related to the securities AFS portfolio, see Note 1, "Significant Accounting Policies," to our 2017 Annual Report on Form 10-K, as well as Note 5, "Investment Securities," Note 1, "Significant Accounting Policies," and the "Trading Assets and Derivative Instruments and Investment Securities" section of Note 16, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q.

For the three months ended September 30, 2018, the average yield on the securities AFS portfolio was 2.69%, compared to 2.49% for the three months ended September 30, 2017. For the nine months ended September 30, 2018, the average yield on the securities AFS portfolio was 2.66%, compared to 2.45% for the nine months ended September 30, 2017. The increases in average yield were due primarily to higher benchmark interest rates, favorable mix shift, and lower premium amortization. See additional discussion related to average yields on securities AFS in the "Net Interest Income/Margin" section of this MD&A.

The credit quality and liquidity profile of our investment securities portfolio remained strong at September 30, 2018. Over the longer term, the size and composition of the investment securities portfolio will reflect balance sheet trends and our overall liquidity objectives. Accordingly, the size and composition of the investment securities portfolio could change over time.

BORROWINGS

Short-Term Borrowings

Short-term borrowings include funds purchased, securities sold under agreements to repurchase, and other short-term borrowings. Our short-term borrowings at September 30, 2018 increased \$3.2 billion, or 66%, from December 31, 2017, driven by increases of \$2.1 billion, \$793 million, and \$227 million in other short-term borrowings, funds purchased, and securities sold under agreements to repurchase, respectively. The increase in other short-term borrowings was due primarily to a \$2.0 billion increase in outstanding FHLB advances.

Long-Term Debt

During the nine months ended September 30, 2018, our long-term debt increased by \$4.5 billion, or 46%. This increase was driven by (i) the Bank's first quarter of 2018 issuances of \$500 million of 5-year fixed rate senior notes and \$750 million of 3-year fixed-to-floating rate senior notes under the Global Bank Note program, (ii) our second quarter of 2018 issuance of \$850 million of 7-year fixed rate senior notes under the Parent Company SEC shelf registration, (iii) the Bank's third quarter of 2018 issuances of \$500 million of 4-year and \$500 million of 6-year fixed-to-floating rate senior notes as well as \$300 million of 4-year floating rate senior notes under the Global Bank Note program, and (iv) increases of \$1.0 billion and \$542 million in outstanding FHLB advances and direct finance leases, respectively, during the nine months ended September 30, 2018. Partially offsetting these increases was \$314 million of subordinated note maturities during the first nine months of 2018.

Table 10 presents our October 2018 issuances of long-term debt under the Global Bank Note program (completed subsequent to the current reporting period).

Issuances Subsequent to September 30, 2018

Table 10

Bank Issuances	Principal Amount	Interest Rate	Optional Redemption	Maturity Date
7-year fixed rate senior notes	\$500 million	4.050% per annum	Callable either (i) on or after September 3, 2025, or (ii) on or after 180 days from October 26, 2018 and prior to September 3, 2025 under a "make-whole" provision	November 3, 2025
3-year fixed-to-floating rate senior notes	\$600 million	Fixed annual rate of 3.525% until October 25, 2020 and floating rate thereafter of 3-month LIBOR plus 50 basis points	Callable on October 26, 2020	October 26, 2021
3-year floating rate senior notes	\$300 million	3-month LIBOR plus 50 basis points	Callable on or after October 26, 2020	October 26, 2021

CAPITAL RESOURCES

Regulatory Capital

Our primary federal regulator, the Federal Reserve, measures capital adequacy within a framework that sets capital requirements relative to the risk profiles of individual banks. The framework assigns risk weights to assets and off-balance sheet risk exposures according to predefined classifications, creating a base from which to compare capital levels. We measure capital adequacy using the standardized approach to the FRB's Basel III Final Rule. Basel III capital categories are discussed below.

CET1 is limited to common equity and related surplus (net of treasury stock), retained earnings, AOCI, and common equity minority interest, subject to limitations. Certain regulatory adjustments and exclusions are made to CET1, including removal of goodwill, other intangible assets, certain DTAs, and certain defined benefit pension fund net assets. Further, banks not subject to the advanced approaches risk-based capital rules were granted a one-time permanent election to exclude AOCI from the calculation of regulatory capital. We elected to exclude AOCI from the calculation of our CET1.

Tier 1 capital includes CET1, qualified preferred equity instruments, qualifying minority interest not included in CET1, subject to limitations, and certain other regulatory deductions. Tier 2 capital includes qualifying portions of subordinated debt, trust preferred securities and minority interest not included in Tier 1 capital, ALLL up to a maximum of 1.25% of RWA, and a limited percentage of unrealized gains on equity securities. Total capital consists of Tier 1 capital and Tier 2 capital.

To be considered "adequately capitalized," we are subject to minimum CET1, Tier 1 capital, and Total capital ratios of 4.5%, 6%, and 8%, respectively, plus, in 2018, 2017, and 2016, CCB amounts of 1.875%, 1.25%, and 0.625%, respectively, are required to be maintained above the minimum capital ratios. The CCB will be fully phased-in at 2.5% above the minimum capital ratios on January 1, 2019. The CCB places restrictions on the amount of retained earnings that may be used for capital distributions or discretionary bonus payments as risk-based capital ratios approach their respective "adequately capitalized" minimum capital ratios plus the CCB. To be considered "well-capitalized," Tier 1 and Total capital ratios of 6% and 10%, respectively, are required.

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

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

A transition period previously applied to certain capital elements and risk weighted assets, where phase-in percentages were applicable in the calculations of capital and RWA. One of the more significant transitions required by the Basel III Final Rule relates to the risk weighting applied to MSRs, which impacted the CET1 ratio during the transition period when compared to the CET1 ratio calculated on a fully phased-in basis. Specifically, the fully phased-in risk weight of MSRs would have been 250%, while the risk weight to be applied during the transition period was 100%. In the third quarter of 2017, the OCC, FRB, and FDIC issued two NPRs in an effort to simplify certain aspects of the capital rules, a Transitions NPR and a Simplifications NPR. The Transitions NPR proposed to extend certain transition provisions in the capital rules for banks with less than \$250 billion in total consolidated assets. The Transitions NPR was finalized in November 2017, resulting in the MSR risk weight of 100% being extended indefinitely. The rule became effective on January 1, 2018. The Simplifications NPR would simplify the capital treatment for certain acquisition, development, and construction loans, mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act ("the Act") was signed into law, which provides certain limited amendments to the Dodd-Frank Act as well as certain targeted modifications to other post-financial crisis regulatory requirements. While certain of the Act's provisions could impact our capital planning and strategy execution, the extent of the impact is yet to be determined given that federal banking regulators have not yet conformed current regulations to the provisions of the Act.

In September 2018, the OCC, FRB, and FDIC issued an NPR that would revise the definition of high volatility commercial real estate exposure ("HVCRE") to conform with the statutory definition of a high volatility commercial real estate acquisition, development, or construction loan, in accordance with the Act. The revised definition would exclude any loans made prior to January 1, 2015, and certain other loans currently classified as HVCRE. We are currently evaluating the impact of this NPR on our capital ratios.

In October 2018, the OCC, FRB, and FDIC issued an NPR that would establish four risk-based categories of standards for determining applicability of capital and liquidity requirements for large U.S. banking organizations. The proposal is consistent with a separate NPR issued concurrently by the FRB that would amend certain prudential standards, including standards relating to liquidity, risk management, stress testing, and single-counterparty credit limits, to reflect the risk profiles of banking organizations. We are currently evaluating the impact of these NPRs.

In October 2018, the OCC, FRB, and FDIC issued an NPR that introduced a new approach for calculating the exposure amount of derivative contracts for regulatory capital purposes, the standardized approach for counterparty credit risk ("SA-CCR"). If finalized, we would be permitted to utilize the SA-CCR in place of the current exposure methodology for determining counterparty credit risk exposures. We are currently evaluating the impact of this NPR.

Table 11 presents the Company's Basel III regulatory capital metrics:

Regulatory Capital Metrics ¹	Table 11	
	September 30, 2018	December 31, 2017
(Dollars in millions)		
Regulatory capital:		
CET1	\$17,543	\$17,141
Tier 1 capital	19,591	19,622
Total capital	22,791	23,028

Assets:				
RWA	\$182,729		\$175,950	
Average total assets for leverage ratio	202,786		200,141	
Risk-based ratios ² :				
CET1	9.60	%	9.74	%
Tier 1 capital	10.72		11.15	
Total capital	12.47		13.09	
Leverage	9.66		9.80	
Total shareholders' equity to assets	11.43		12.21	

¹ We calculated these measures based on the methodology specified by our primary regulator, which may differ from the calculations used by other financial services companies that present similar metrics.

² Basel III capital ratios are calculated under the standardized approach using regulatory capital methodology applicable to us for each period presented.

Our CET1 ratio decreased compared to December 31, 2017, driven primarily by growth in risk weighted assets, offset partially by an increase in retained earnings. The Tier 1 capital and Total capital ratios declined compared to December 31, 2017, due to the impact of our redemption of all outstanding shares of Series E Preferred Stock in the first quarter of 2018. Specifically, we used net proceeds from our November 2017 Series H Preferred Stock issuance to redeem all 4,500 shares of our outstanding higher cost Series E Preferred Stock in the first quarter of 2018. At September 30, 2018, our capital ratios were well above current regulatory requirements. See Note 13, "Capital," to the Consolidated Financial Statements in our 2017 Annual Report on Form 10-K for additional information regarding our regulatory capital adequacy requirements and metrics.

Capital Actions

We declared and paid common stock dividends of \$603 million, or \$1.30 per common share, for the nine months ended September 30, 2018, compared to \$443 million, or \$0.92 per common share, for the nine months ended September 30, 2017. Additionally, we declared dividends on our preferred stock of \$81 million and \$65 million during the nine months ended September 30, 2018 and 2017, respectively.

Various regulations administered by federal and state bank regulatory authorities restrict the Bank's ability to distribute its retained earnings. At September 30, 2018 and December 31, 2017, the Bank's capacity to pay cash dividends to the Parent Company under these regulations totaled approximately \$2.1 billion and \$2.5 billion, respectively.

During each of the first and second quarters of 2018, we repurchased \$330 million of our outstanding common stock at market value, which completed our \$1.32 billion of authorized common equity repurchases approved by the Board in conjunction with the 2017 capital plan.

In June 2018, we announced capital plans in response to the Federal Reserve's review of and non-objection to our 2018 capital plan submitted in conjunction with the 2018 CCAR. Our 2018 capital plan includes increases in our share repurchase program and quarterly common stock dividend, while maintaining our level of preferred stock dividends. Specifically, the 2018 capital plan authorized the repurchase of up to \$2.0 billion of our outstanding common stock to be completed between the third quarter of 2018 and the second quarter of 2019, as well as a 25% increase in our quarterly common stock dividend from \$0.40 per share to \$0.50 per share, beginning in the third quarter of 2018. During the third quarter of 2018, we repurchased \$500 million of our outstanding common stock at market value as part of this 2018 capital plan. We will repurchase a minimum of \$500 million of our outstanding common stock in the fourth quarter of 2018.

See Item 5 and Note 13, "Capital," to the Consolidated Financial Statements in our 2017 Annual Report on Form 10-K, as well as Part II, Item 2 in this Form 10-Q for additional information regarding our capital actions.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to our Critical Accounting Policies from those described in our 2017 Annual Report on Form 10-K.

ENTERPRISE RISK MANAGEMENT

Except as noted below, there have been no significant changes in our Enterprise Risk Management practices from those described in our 2017 Annual Report on Form 10-K.

In the second quarter of 2018, we established two additional executive committees:

The Strategic Initiative Review Committee ("SIRC") was formed to further support executive level review of strategic initiatives. The SIRC is chaired by the Chief Risk Officer and is responsible for identifying constraints to business accelerations, challenging assumptions or execution strategies, and validating alignment with our purpose, risk appetite, and strategic direction.

The Technology Management Committee ("TMC") was formed to provide the Executive Council, comprised of the CEO and his direct reports, with a forum to discuss, debate, and challenge technology strategies and investments to ensure alignment of technology strategy execution across the Executive Council. The TMC is chaired by the Chief Information Officer.

Credit Risk Management

There have been no significant changes in our Credit Risk Management practices from those described in our 2017 Annual Report on Form 10-K.

Operational Risk Management

There have been no significant changes in our Operational Risk Management practices from those described in our 2017 Annual Report on Form 10-K.

Market Risk Management

There have been no significant changes in our Market Risk Management practices from those described in our 2017 Annual Report on Form 10-K, other than those already discussed in this section.

Market Risk from Non-Trading Activities

The sensitivity analysis presented in Table 12 is measured as a percentage change in net interest income due to instantaneous moves in benchmark interest rates. Estimated changes are dependent upon material assumptions such as those described in our 2017 Annual Report on Form 10-K.

Net Interest Income Asset
Sensitivity

Table 12

Rate Change	Estimated % Change in Net Interest Income Over 12 Months ¹	
	September 30, 2018	December 31, 2017
+200 bps	2.0%	2.4%
+100 bps	1.1%	1.4%
-50 bps	(0.8)%	(1.0)%

¹ Estimated % change of net interest income is reflected on a non-FTE basis.

Net interest income asset sensitivity at September 30, 2018 decreased compared to December 31, 2017, driven primarily by changes in our funding profile. See additional discussion related to net interest income in the "Net Interest Income/Margin" section of this MD&A.

At September 30, 2018, the MVE profile in Table 13 indicates a decline in net balance sheet value due to instantaneous upward changes in rates. This MVE sensitivity is reported for both upward and downward rate shocks.

Market Value of Equity
Sensitivity

Table 13

Rate Change	Estimated % Change in MVE	
	September 30, 2018	December 31, 2017
+200 bps	(7.5)%	(7.6)%
+100 bps	(3.5)%	(3.3)%
-50 bps	1.3%	0.8%

MVE sensitivity for downward rate shocks at September 30, 2018 increased compared to December 31, 2017, driven primarily by higher absolute levels of interest rates. While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these rate scenarios, we believe that a gradual shift in interest rates would have a much more modest impact.

Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Furthermore, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the impact of changes in interest rates. The net interest income simulation and valuation analyses do not include

actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Market Risk from Trading Activities

Table 14 presents VAR and Stressed VAR for the three and nine months ended September 30, 2018 and 2017, as well as VAR by Risk Factor at September 30, 2018 and 2017.

Value at Risk Profile

Table 14

	Three Months Ended September 30	2018	Nine Months Ended September 30	2017
(Dollars in millions)	2018	2017	2018	2017
VAR (1-day holding period):				
Period end	\$2	\$2	\$2	\$2
High	2	3	3	3
Low	1	1	1	1
Average	2	2	2	2
Stressed VAR (10-day holding period):				
Period end	\$60	\$69	\$60	\$69
High	81	100	103	100
Low	25	44	25	22
Average	55	65	61	53
VAR by Risk Factor at period end (1-day holding period):				
Equity risk			\$2	\$1
Interest rate risk			1	1
Credit spread risk			2	3
VAR total at period end (1-day diversified)			2	2

The trading portfolio's VAR profile, presented in Table 14, is influenced by a variety of factors, including the size and composition of the portfolio, market volatility, and the correlation between different positions. Notwithstanding normal quarterly variations in the VAR associated with individual risk factors, average daily VAR as well as period end VAR for the three and nine months ended September 30, 2018 remained largely unchanged compared to the same periods in 2017. Stressed VAR remained within historic ranges throughout the first nine months of 2018, reflecting typical fluctuations in portfolio composition and balance sheet usage. The trading portfolio of covered positions did not contain any correlation trading positions or on- or off-balance sheet securitization positions during the nine months ended September 30, 2018 or 2017.

In accordance with the Market Risk Rule, we evaluate the accuracy of our VAR model through daily backtesting by comparing aggregate daily trading gains and losses (excluding fees, commissions, reserves, net interest income, and intraday trading) from covered positions with the corresponding daily VAR-based measures generated by the model. As illustrated in the following graph, there were no firmwide VAR backtesting exceptions during the twelve months ended September 30, 2018. The total number of VAR backtesting exceptions over the preceding twelve months is used to determine the multiplication factor for the VAR-based capital requirement under the Market Risk Rule. The capital multiplication factor increases from a minimum of three to a maximum of four, depending on the number of exceptions. There was no change in the capital multiplication factor over the preceding twelve months.

We have valuation policies, procedures, and methodologies for all covered positions. Additionally, trading positions are reported in accordance with U.S. GAAP and are subject to independent price verification. See Note 15, "Derivative Financial Instruments," and Note 16, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-Q, as well as the "Critical Accounting Policies" MD&A section of our 2017 Annual Report on Form 10-K for discussion of valuation policies, procedures, and methodologies.

Liquidity Risk Management

LCR requirements under Regulation WW require large U.S. banking organizations to hold unencumbered high-quality liquid assets sufficient to withstand projected 30-day total net cash outflows, each as defined under the LCR rule. At September 30, 2018, our LCR calculated pursuant to the rule was above the 100% minimum regulatory requirement. On December 19, 2016, the FRB published a final rule implementing public disclosure requirements for BHCs subject to the LCR that will require them to publicly disclose quantitative and qualitative information regarding their respective LCR calculations on a quarterly basis. We will be required to begin disclosing elements under this final rule for quarterly periods ending after October 1, 2018.

On May 3, 2016, the FRB, OCC, and the FDIC issued a joint proposed rule to implement the NSFR. The proposal would require large U.S. banking organizations to maintain a stable funding profile over a one-year horizon. The FRB proposed a modified NSFR requirement for BHCs with greater than \$50 billion but less than \$250 billion in total consolidated assets, and less than \$10 billion in total on balance sheet foreign exposure. The proposed NSFR requirement seeks to (i) reduce

vulnerability to liquidity risk in financial institution funding structures and (ii) promote improved standardization in the measurement, management and disclosure of liquidity risk. The proposed rule contains an implementation date of January 1, 2018; however, a final rule has not yet been issued.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital service. The Bank borrows from the money markets using instruments such as Fed Funds, Eurodollars, and securities sold under agreements to repurchase. At September 30, 2018, the Bank retained a material cash position in its Federal Reserve account. The Parent Company also retained a material cash position in its account with the Bank in accordance with our policies and risk limits, discussed in greater detail below.

Sources of Funds. Our primary source of funds is a large, stable deposit base. Core deposits, predominantly made up of consumer and commercial deposits originated primarily from our retail branch network and Wholesale client base, are our largest and most cost-effective source of funding. Total deposits decreased to \$160.4 billion at September 30, 2018, from \$160.8 billion at December 31, 2017.

We also maintain access to diversified sources for both secured and unsecured wholesale funding. These uncommitted sources include Fed Funds purchased from other banks, securities sold under agreements to repurchase, FHLB advances, and Global Bank Notes. Aggregate borrowings increased to \$22.2 billion at September 30, 2018, from \$14.6 billion at December 31, 2017. These additional borrowings include a mix of both secured and unsecured funding and have primarily been used to support loan growth.

As mentioned above, the Bank and Parent Company maintain programs to access the debt capital markets. The Parent Company maintains an SEC shelf registration from which it may issue senior or subordinated notes and various capital securities, such as common or preferred stock. In August 2018, our Board approved a new SEC shelf registration, which authorized the issuance of up to \$6.0 billion of such securities, of which \$6.0 billion of issuance capacity remained available at September 30, 2018. Under our previous SEC shelf registration, the Board authorized the issuance of up to \$5.0 billion of such securities, of which \$1.7 billion of issuance capacity remained available at December 31, 2017. In April 2018, the Parent Company issued \$850 million of 7-year fixed rate senior notes under our previous SEC shelf registration.

The Bank maintains a Global Bank Note program under which it may issue senior or subordinated debt with various terms. In the first quarter of 2018, we issued \$500 million of 5-year fixed rate senior notes and \$750 million of 3-year fixed-to-floating rate senior notes under this program. In the third quarter of 2018, we issued \$500 million of 4-year and \$500 million of 6-year fixed-to-floating rate senior notes as well as \$300 million of 4-year floating rate senior notes under this program. At September 30, 2018, the Bank retained \$32.9 billion of remaining capacity to issue notes under the Global Bank Note program. See the “Recent Developments” section below for a description of issuances subsequent to September 30, 2018 under this program.

Our issuance capacity under these Bank and Parent Company programs refers to authorization granted by our Board, which is a formal program capacity and not a commitment to purchase by any investor. Debt and equity securities issued under these programs are designed to appeal primarily to domestic and international institutional investors. Institutional investor demand for these securities depends upon numerous factors, including, but not limited to, our credit ratings, investor perception of financial market conditions, and the health of the banking sector. Therefore, our ability to access these markets in the future could be impaired for either idiosyncratic or systemic reasons.

We assess liquidity needs that may occur in both the normal course of business and during times of unusual, adverse events, considering both on and off-balance sheet arrangements and commitments that may impact liquidity in certain business environments. We have contingency funding scenarios and plans that assess liquidity needs that may arise from certain stress events such as severe economic recessions, financial market disruptions, and credit rating downgrades. In particular, a ratings downgrade could adversely impact the cost and availability of some of our liquid funding sources. Factors that affect our credit ratings include, but are not limited to, the credit risk profile of

our assets, the adequacy of our ALLL, the level and stability of our earnings, the liquidity profile of both the Bank and the Parent Company, the economic environment, and the adequacy of our capital base.

As illustrated in Table 15, at September 30, 2018, S&P has assigned a “Positive” outlook on our credit rating, while both Moody’s and Fitch maintained “Stable” outlooks. Future credit rating downgrades are possible, although not currently anticipated given these “Positive” and “Stable” credit rating outlooks.

Credit Ratings and Outlook	Table 15		
	September 30, 2018		
	Moody’s	S&P	Fitch
SunTrust Banks, Inc.:			
Senior debt	Baa1	BBB+	A-
Preferred stock	Baa3	BB+	BB

SunTrust Bank:			
Long-term deposits	A1	A-	A
Short-term deposits	P-1	A-2	F1
Senior debt	Baa1	A-	A-
Outlook	Stable	Positive	Stable

Our investment securities portfolio is a use of funds and a store of liquidity that is managed as part of our overall liquidity management and ALM process to optimize income and portfolio value, maintaining the majority of securities in liquid and high-grade asset classes, such as agency MBS, agency debt, and U.S. Treasury securities; nearly all of these securities qualify as high-quality liquid assets under the U.S. LCR Final Rule. At September 30, 2018, our

securities AFS portfolio contained \$27.4 billion of unencumbered high-quality, liquid securities at market value. As mentioned above, we evaluate contingency funding scenarios to anticipate and manage the likely impact of impaired capital markets access and other adverse liquidity circumstances. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingency liquidity. These contingency liquidity sources include available cash reserves, the ability to sell, pledge, or borrow against unencumbered securities in our investment portfolio, the capacity to borrow from the FHLB system or the Federal Reserve discount window, and the ability to sell or securitize certain loan portfolios. Table 16 presents period end and average balances of our contingency liquidity sources for the third quarters of 2018 and 2017. These sources exceed our contingency liquidity needs as measured in our contingency funding scenarios.

Contingency Liquidity Sources

Table 16

(Dollars in billions)	As of		Average for the Three Months Ended ¹	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Excess reserves	\$3.8	\$4.5	\$2.4	\$2.8
Free and liquid investment portfolio securities	27.4	27.4	27.4	27.8
Unused FHLB borrowing capacity	24.2	24.5	25.3	23.2
Unused discount window borrowing capacity	19.8	17.8	19.4	17.8
Total	\$75.2	\$74.2	\$74.5	\$71.6

¹ Average based upon month-end data, except excess reserves, which is based upon a daily average.

Federal Home Loan Bank and Federal Reserve Bank Stock. We previously acquired capital stock in the FHLB of Atlanta as a precondition for becoming a member of that institution. As a member, we are able to take advantage of competitively priced advances as a wholesale funding source and to access grants and low-cost loans for affordable housing and community development projects, among other benefits. At September 30, 2018, we held \$142 million of capital stock in the FHLB of Atlanta, an increase of \$127 million compared to December 31, 2017 due to an increase in short-term FHLB advances over the same period. For each of the three and nine months ended September 30, 2018 and 2017, we recognized an immaterial amount of dividends related to FHLB capital stock.

Similarly, to remain a member of the Federal Reserve System, we are required to hold a certain amount of capital stock, determined as either a percentage of the Bank's capital or as a percentage of total deposit liabilities. At both September 30, 2018 and December 31, 2017, we held \$403 million of Federal Reserve Bank of Atlanta stock. For both the three months ended September 30, 2018 and 2017, we recognized an immaterial amount of dividends related to Federal Reserve Bank of Atlanta stock. For the nine months ended September 30, 2018 and 2017, we recognized dividends related to Federal Reserve Bank of Atlanta stock of \$9 million and \$7 million, respectively.

Parent Company Liquidity. The primary uses of Parent Company liquidity include debt service, dividends on capital instruments, the periodic purchase of investment securities, loans to our subsidiaries, and common share repurchases. See further details of the authorized common share repurchases in the "Capital Resources" section of this MD&A and in Part II, Item 2, in this Form 10-Q. We fund corporate dividends with Parent Company cash, the primary sources of which are dividends from our banking subsidiary and proceeds from the issuance of debt and

capital securities. We are subject to both state and federal banking regulations that limit our ability to pay common stock dividends in certain circumstances.

Recent Developments. In October 2018, the Bank issued \$500 million of 7-year fixed rate senior notes, \$600 million of 3-year fixed-to-floating rate senior notes, and \$300 million of 3-year floating rate senior notes under our Global Bank Note program. Similar to our debt issuances in the first nine months of 2018, these issuances allowed us to supplement our funding sources and pay down other borrowings. See Table 10 in "Borrowings" for additional details regarding debt issuances we completed subsequent to September 30, 2018.

Other Liquidity Considerations. As presented in Table 17, we had an aggregate potential obligation of \$92.5 billion to our clients in unused lines of credit at September 30, 2018. Commitments to extend credit are arrangements to lend to clients who have complied with predetermined contractual obligations. We also had \$3.2 billion in letters of credit outstanding at September 30, 2018, most of which are standby letters of credit, which require that we provide funding if certain future events occur. Approximately \$196 million of these letters were available to support variable rate demand obligations at September 30, 2018. Unused commercial lines of credit increased since December 31, 2017, driven by an increase in commercial line of credit commitments during the nine months ended September 30, 2018.

Residential mortgage commitments also increased since December 31, 2017, driven by the increase in IRLC volume outpacing the increase in closed loan volume during the nine months ended September 30, 2018. Additionally, unused CRE lines of credit increased since December 31, 2017, driven primarily by an increase in CRE line of credit commitments during the nine months ended September 30, 2018.

Unfunded Lending Commitments

(Dollars in millions)	Table 17			
	As of		Average for the Three Months Ended	
	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017
Unused lines of credit:				
Commercial	\$63,400	\$59,625	\$62,728	\$57,807
Residential mortgage commitments ¹	3,777	3,036	3,810	4,268
Home equity lines	10,200	10,086	10,165	10,159
CRE ²	4,534	4,139	4,263	3,953
Credit card	10,601	10,533	10,602	10,338
Total unused lines of credit	\$92,512	\$87,419	\$91,568	\$86,525
Letters of credit:				
Financial standby	\$3,041	\$2,453	\$2,912	\$2,722
Performance standby	101	125	101	121
Commercial	37	14	34	14
Total letters of credit	\$3,179	\$2,592	\$3,047	\$2,857

¹ Includes residential mortgage IRLCs with notional balances of \$1.6 billion and \$1.7 billion at September 30, 2018 and December 31, 2017, respectively.

² Includes commercial mortgage IRLCs and other commitments with notional balances of \$262 million and \$240 million at September 30, 2018 and December 31, 2017, respectively.

Other Market Risk

Except as discussed below, there have been no other significant changes to other market risk as described in our 2017 Annual Report on Form 10-K.

We measure our residential MSR's at fair value on a recurring basis and hedge the risk associated with changes in fair value. Residential MSR's totaled \$2.1 billion and \$1.7 billion at September 30, 2018 and December 31, 2017, respectively, and are managed and monitored as part of a comprehensive risk governance process, which includes established risk limits.

We originated residential MSR's with fair values at the time of origination of \$100 million and \$250 million during the three and nine months ended September 30, 2018 and \$90 million and \$252 million during the three and nine months ended September 30, 2017, respectively. Additionally, we purchased residential MSR's with a fair value of approximately \$14 million and \$89 million during the three and nine months ended September 30, 2018, respectively. No residential MSR's were purchased during the three and nine months ended September 30, 2017.

We recognized a mark-to-market decrease in the fair value of our residential MSR's of \$10 million and an increase of \$15 million during the three and nine months ended September 30, 2018 and decreases of \$70 million and \$195 million during the three and nine months ended September 30, 2017, respectively. Changes in fair value include the decay resulting from the realization of monthly net servicing cash flows. We recognized net losses related to residential MSR's, inclusive of fair value changes and related hedges, of \$64 million and \$184 million for the three and nine months ended September 30, 2018 and \$54 million and \$153 million for the three and nine months ended September 30, 2017, respectively. Compared to the prior year periods, the increase in net losses related to residential MSR's was primarily driven by higher decay combined with lower net hedge performance in the current periods. Higher decay was driven by an increase in residential MSR asset value as well as an increase in the size of the servicing portfolio, offset partially

by a decrease in payoff volume. All other servicing rights, which include commercial mortgage and consumer indirect loan servicing rights, are not measured at fair value on a recurring basis, and therefore, are not subject to the same market risks associated with residential MSR's.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business we engage in certain activities that are not reflected in our Consolidated Balance Sheets, generally referred to as "off-balance sheet arrangements." These activities involve transactions with unconsolidated VIEs as well as other arrangements, such as commitments and guarantees, to meet the financing needs of our clients and to support ongoing operations. Additional information regarding these types of activities is included in the "Liquidity Risk Management" section of this MD&A, Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 14, "Guarantees," to the Consolidated Financial Statements in this Form 10-Q, as well as in our 2017 Annual Report on Form 10-K.

Contractual Obligations

In the normal course of business, we enter into certain contractual obligations, including obligations to make future payments on our borrowings, partnership investments, and lease arrangements, as well as commitments to lend to clients and to fund capital expenditures and service contracts.

Except for changes in unfunded lending commitments (presented in Table 17 within the "Liquidity Risk Management" section of this MD&A), borrowings (presented in the "Borrowings" section of this MD&A), and pension and other postretirement benefit plans (disclosed in Note 13, "Employee Benefit Plans," to the Consolidated Financial Statements in this Form 10-Q), there have been no material changes in our contractual obligations from those disclosed in our 2017 Annual Report on Form 10-K.

BUSINESS SEGMENTS

See Note 18, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-Q for a description of our business segments, basis of presentation, internal management

reporting methodologies, and additional information. Table 18 presents net income for our reportable business segments:

Net Income by Business Segment Table
18

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017 ^{1,2}	2018	2017 ^{1,2}
(Dollars in millions)				
Consumer	\$381	\$264	\$1,081	\$698
Wholesale	372	341	1,120	917
Corporate Other	50	(17)	49	60
Reconciling Items ³	(51)	(50)	(133)	(142)
Total Corporate Other	(1)	(67)	(84)	(82)
Consolidated Net Income	\$752	\$538	\$2,117	\$1,533

During the second quarter of 2018, certain business banking clients were transferred from the Wholesale business¹ segment to the Consumer business segment. For all periods prior to the second quarter of 2018, the corresponding financial results have been transferred to the Consumer business segment for comparability purposes.

During the fourth quarter of 2017, we sold PAC, the results of which were previously reported within the Wholesale² business segment. For all periods prior to January 1, 2018, PAC's financial results, including the gain on sale, have been transferred to Corporate Other for enhanced comparability of the Wholesale business segment excluding PAC.

Reflects differences between net income reported for each business segment using management accounting practices³ and U.S. GAAP. Prior period information has been restated to reflect changes in internal reporting methodology.

See additional information in Note 18, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-Q.

Table 19 presents average LHFI and average deposits for our reportable business segments:

Average LHFI and Deposits Table 19
by Business Segment

	Three Months Ended September 30			
	Average LHFI		Average Consumer and Commercial Deposits	
(Dollars in millions)	2018	2017 ^{1,2}	2018	2017 ^{1,2}
Consumer	\$75,414	\$74,742	\$111,930	\$109,774
Wholesale	70,485	68,568	47,773	49,515
Corporate Other	96	1,396	(355)	130

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Nine Months Ended September 30

	Average LHF1		Average Consumer and Commercial Deposits	
(Dollars in millions)	2018	2017 ^{1, 2}	2018	2017 ^{1, 2}
Consumer	\$75,122	\$73,613	\$111,025	\$109,301
Wholesale	69,155	69,303	48,259	49,724
Corporate Other	91	1,360	(125) 120

¹ During the second quarter of 2018, certain business banking clients were transferred from the Wholesale business segment to the Consumer business segment. For all periods prior to the second quarter of 2018, the corresponding financial results have been transferred to the Consumer business segment for comparability purposes.

² During the fourth quarter of 2017, we sold PAC, the assets and liabilities of which were previously reported within the Wholesale business segment. For all periods prior to January 1, 2018, PAC's assets and liabilities, including loans and deposits, have been transferred to Corporate Other for enhanced comparability of the Wholesale business segment excluding PAC.

BUSINESS SEGMENT RESULTS

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

Consumer

Consumer reported net income of \$1.1 billion for the nine months ended September 30, 2018, an increase of \$383 million, or 55%, compared to the same period in 2017. The increase was driven primarily by higher net interest income and lower provisions for credit losses and income taxes, offset partially by lower noninterest income and higher noninterest expense.

Net interest income was \$3.1 billion, an increase of \$229 million, or 8%, compared to the same period in 2017, driven by improved spreads on deposit balances. Net interest income related to deposits increased \$235 million, or 14%, driven by a 25 basis point increase in deposit spreads and a \$1.7 billion, or 2%, increase in average deposit balances. Net interest income related to LHFI increased \$8 million, or 1%, driven primarily by a \$1.5 billion, or 2%, increase in average LHFI balances, offset partially by a three basis point decrease in loan spreads. Consumer loan growth was driven by increases in residential mortgages, consumer direct, indirect, and guaranteed student loans, offset partially by declines in home equity products.

Provision for credit losses was \$101 million, a decrease of \$209 million, or 67%, compared to the same period in 2017. The decrease was driven by lower net charge-offs, improved credit quality, and the release of hurricane-related ALLL reserves.

Total noninterest income was \$1.3 billion, a decrease of \$78 million, or 5%, compared to the same period in 2017. The decrease was driven primarily by lower mortgage related income and lower client transaction-related fee income (which includes service charges on deposit accounts, other charges and fees, and card fees), offset partially by increases in retail investment services and other noninterest income. The decline in client transaction-related fee income was due primarily to the impact of our adoption of the revenue recognition accounting standard on January 1, 2018 and by a change in our process for recognizing card rewards expenses, which resulted in four months of rewards expenses being recognized in card fee income in the third quarter of 2018.

Total noninterest expense was \$3.0 billion, an increase of \$56 million, or 2%, compared to the same period in 2017. The increase was driven primarily by higher outside processing and software costs due to investments in technology and favorable developments with certain legal matters in the third quarter of 2017, offset partially by revenue recognition accounting impacts in the current period.

Wholesale

Wholesale reported net income of \$1.1 billion for the nine months ended September 30, 2018, an increase of \$203 million, or 22%, compared to the same period in 2017. The increase was due to higher net interest income and lower provision for income taxes, offset partially by lower noninterest income and higher noninterest expense.

Net interest income was \$1.7 billion, an increase of \$73 million, or 5%, compared to the same period in 2017, driven primarily by improved deposit and equity spreads, offset partially by declines in loan and deposit volume. Net interest income related to deposits increased \$84 million, or 15%, as a

result of improved spreads, offset partially by decreased deposit volumes. Average deposit balances decreased \$1.5 billion, or 3%, as a result of decreases in money market accounts and non-interest-bearing commercial DDAs, offset partially by increases in interest-bearing commercial DDAs and business CD products. Net interest income related to LHFI decreased \$44 million, or 5%, as a result of lower tax exempt loan and lease spreads, which were specifically impacted by the 2017 Tax Act. Net interest income related to equity increased \$40 million, or 32%, due to higher equity balances and spreads.

Provision for credit losses was \$19 million, stable compared to the same period in 2017.

Total noninterest income was \$1.1 billion, a decrease of \$45 million, or 4%, compared to the same period in 2017. The decrease was driven largely by lower investment banking income, which decreased \$32 million, or 7%, as a result of lower syndication and high yield bond fees. The gross-up of tax credits decreased \$21 million, or 17%, driven by the lower effective tax rate for the nine months ended September 30, 2018. Commercial credit related income was down \$10 million, or 4%, as a result of lower bridge commitment fees and service charges, which were down \$5 million, or 4%. These decreases were offset partially by \$30 million of remeasurement gains on an equity investment following our adoption of the recognition and measurement of financial assets accounting standard on January 1, 2018

and a \$4 million, or 3%, increase in trading income resulting from higher client-related derivative activity.

Total noninterest expense was \$1.3 billion, an increase of \$23 million, or 2%, compared to the same period in 2017. The increase was due to higher investment banking transaction expenses related to the impact of our adoption of the revenue recognition accounting standard on January 1, 2018, higher functional support expense, and higher amortization expense associated with STCC tax credit investments, offset partially by lower headcount and incentive related compensation.

Corporate Other

Corporate Other net income was \$49 million for the nine months ended September 30, 2018, a decrease of \$11 million, or 18%, compared to the same period in 2017. The decrease in net income was due primarily to lower net interest income.

Net interest income was a net expense of \$118 million, a decrease of \$149 million compared to the same period in 2017. The decrease was driven by lower commercial loan-related swap income due to higher benchmark interest rates. Average long-term debt remained stable and average short-term borrowings increased \$316 million, or 15%, driven by balance sheet management activities.

Total noninterest income was \$50 million, a decrease of \$9 million, or 15%, compared to the same period in 2017. The decrease was driven primarily by a decline in capital markets related income, which decreased \$15 million, or 82%, offset partially by a mark-to-market net gain of \$9 million recognized on an equity investment for the nine months ended September 30, 2018.

Total noninterest expense was a benefit of \$95 million for the nine months ended September 30, 2018. The benefit increased \$129 million compared to the same period in 2017 due primarily to higher recoveries of internal expense allocations during the current period.

Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures

Table 20

(Dollars in millions and shares in thousands, except per share data)	Three Months		Nine Months	
	Ended September 30		Ended September 30	
	2018	2017	2018	2017
Selected Financial Data				
Summary of Operations:				
Interest income	\$1,834	\$1,635	\$5,261	\$4,747
Interest expense	322	205	821	548
Net interest income	1,512	1,430	4,440	4,199
Provision for credit losses	61	120	121	330
Net interest income after provision for credit losses	1,451	1,310	4,319	3,869
Noninterest income	782	846	2,408	2,520
Noninterest expense	1,384	1,391	4,191	4,243
Income before provision for income taxes	849	765	2,536	2,146
Provision for income taxes	95	225	412	606
Net income attributable to noncontrolling interest	2	2	7	7
Net income	\$752	\$538	\$2,117	\$1,533
Net income available to common shareholders	\$726	\$512	\$2,036	\$1,468
Net interest income-FTE ¹	\$1,534	\$1,467	\$4,505	\$4,306
Total revenue	2,294	2,276	6,848	6,719
Total revenue-FTE ¹	2,316	2,313	6,913	6,826
Net income per average common share:				
Diluted	\$1.56	\$1.06	\$4.34	\$3.00
Basic	1.58	1.07	4.38	3.04
Dividends declared per common share	0.50	0.40	1.30	0.92
Book value per common share			48.00	47.16
Tangible book value per common share ²			34.51	34.34
Market capitalization			30,632	28,451
Market price per common share (NYSE trading symbol "STI"):				
High	\$75.08	\$60.04	\$75.08	\$61.69
Low	65.82	51.96	64.32	51.96
Close	66.79	59.77	66.79	59.77
Selected Average Balances:				
Total assets	\$207,395	\$205,738	\$205,370	\$204,833
Earning assets	186,344	184,861	184,607	184,180
LHFI	145,995			