SUNTRUST BANKS INC
Form 10-Q
August 03, 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 June 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 þ 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 þ 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 þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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 þ

At July 31, 2018, 460,731,345 shares of the registrant’s common stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS

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.
ALCO — Asset/Liability Management Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
APIC — Additional paid-in capital.
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.
BRC — Board Risk Committee.
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.
GFO — GFO Advisory Services, LLC.
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.
MRMG — Model Risk Management Group.
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.
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.
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 six months ended June 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 June 30		Six Months Ended June 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	$1,476	$1,338	$2,874	$2,628
Interest and fees on loans held for sale	24	21	45	46
Interest on securities available for sale [1]	210	187	416	369
Trading account interest and other [1]	49	37	92	68
Total interest income	1,759	1,583	3,427	3,111
Interest Expense				
Interest on deposits	159	95	291	175
Interest on long-term debt	83	70	157	139
Interest on other borrowings	29	15	51	28
Total interest expense	271	180	499	342
Net interest income	1,488	1,403	2,928	2,769
Provision for credit losses	32	90	60	209
Net interest income after provision for credit losses	1,456	1,313	2,868	2,560
Noninterest Income				
Service charges on deposit accounts	144	151	289	299
Other charges and fees	93	103	179	198
Card fees	85	87	166	169
Investment banking income	167	147	298	314
Trading income	53	46	95	97
Trust and investment management income	75	76	150	151
Retail investment services	73	70	145	139
Mortgage servicing related income	40	44	95	102
Mortgage production related income	43	56	79	109
Commercial real estate related income	18	24	42	44
Net securities gains	—	1	1	1
Other noninterest income	38	22	87	51
Total noninterest income	829	827	1,626	1,674
Noninterest Expense				
Employee compensation	714	710	1,422	1,427
Employee benefits	88	86	234	221
Outside processing and software	227	204	433	409
Net occupancy expense	90	94	184	185
Equipment expense	44	43	84	83
Marketing and customer development	40	42	81	84
Regulatory assessments	39	49	79	97
Amortization	17	15	32	28
Operating losses	17	19	23	51
Other noninterest expense	114	126	235	268
Total noninterest expense	1,390	1,388	2,807	2,853
Income before provision for income taxes	895	752	1,687	1,381
Provision for income taxes	171	222	318	381

Net income including income attributable to noncontrolling interest	724	530	1,369	1,000
Less: Net income attributable to noncontrolling interest	2	2	4	5
Net income	722	528	1,365	995
Less: Preferred stock dividends	25	23	55	39
Net income available to common shareholders	$697	$505	$1,310	$956
Net income per average common share:				
Diluted	$1.49	$1.03	$2.78	$1.94
Basic	1.50	1.05	2.80	1.97
Dividends declared per common share	0.40	0.26	0.80	0.52
Average common shares outstanding - diluted	469,339	488,020	471,468	491,989
Average common shares outstanding - basic	465,529	482,913	467,117	486,482

[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, income associated with these equity securities was presented in Interest on securities available for sale and has been reclassified to Trading account interest and other for comparability.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions) (Unaudited)	2018	2017	2018	2017
Net income	$722	$528	$1,365	$995
Components of other comprehensive (loss)/income:				
Change in net unrealized (losses)/gains on securities available for sale, net of tax of ($38), $33, ($168), and $34, respectively	(123)	55	(548)	57
Change in net unrealized (losses)/gains on derivative instruments, net of tax of ($10), $18, ($49), and ($6), respectively	(35)	31	(159)	(11)
Change in net unrealized losses on brokered time deposits, net of tax of $0, $0, $0, and $0, respectively	(1)	—	—	—
Change in credit risk adjustment on long-term debt, net of tax of $0, $1, $1, and $0, respectively	1	1	3	—
Change related to employee benefit plans, net of tax of $0, $2, $1, and $1, respectively	1	3	(1)	(2)
Total other comprehensive (loss)/income, net of tax	(157)	90	(705)	44
Total comprehensive income	$565	$618	$660	$1,039

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands, except per share data)	June 30, 2018	December 31, 2017
Assets	(Unaudited)	
Cash and due from banks	$5,858	$5,349
Federal funds sold and securities borrowed or purchased under agreements to resell	1,365	1,538
Interest-bearing deposits in other banks	25	25
Cash and cash equivalents	7,248	6,912
Trading assets and derivative instruments [1]	5,050	5,093
Securities available for sale [2, 3]	30,942	30,947
Loans held for sale ($2,005 and $1,577 at fair value at June 30, 2018 and December 31, 2017, respectively)	2,283	2,290
Loans held for investment [4] ($177 and $196 at fair value at June 30, 2018 and December 31, 2017, respectively)	144,935	143,181
Allowance for loan and lease losses	(1,650)	(1,735)
Net loans held for investment	143,285	141,446
Premises and equipment, net	1,538	1,734
Goodwill	6,331	6,331
Other intangible assets (Residential MSRs at fair value: $1,959 and $1,710 at June 30, 2018 and December 31, 2017, respectively)	2,036	1,791
Other assets [3] ($126 and $56 at fair value at June 30, 2018 and December 31, 2017, respectively)	8,792	9,418
Total assets	$207,505	$205,962
Liabilities		
Noninterest-bearing deposits	$44,755	$42,784
Interest-bearing deposits ($350 and $236 at fair value at June 30, 2018 and December 31, 2017, respectively)	116,693	117,996
Total deposits	161,448	160,780
Funds purchased	1,251	2,561
Securities sold under agreements to repurchase	1,567	1,503
Other short-term borrowings	2,470	717
Long-term debt [5] ($220 and $530 at fair value at June 30, 2018 and December 31, 2017, respectively)	11,995	9,785
Trading liabilities and derivative instruments	1,958	1,283
Other liabilities	2,500	4,179
Total liabilities	183,189	180,808
Shareholders' Equity		
Preferred stock, no par value	2,025	2,475
Common stock, $1.00 par value	552	550
Additional paid-in capital	8,980	9,000
Retained earnings	18,616	17,540
Treasury stock, at cost, and other [6]	(4,178)	(3,591)
Accumulated other comprehensive loss, net of tax	(1,679)	(820)
Total shareholders' equity	24,316	25,154
Total liabilities and shareholders' equity	$207,505	$205,962
Common shares outstanding [7]	465,199	470,931
Common shares authorized	750,000	750,000

Preferred shares outstanding	20	25
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	87,071	79,133
[1] Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	$1,160	$1,086
[2] Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral	184	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	165	179
[5] Includes debt of consolidated VIEs	174	189
[6] Includes noncontrolling interest	103	103
[7] Includes restricted shares	7	9

See accompanying Notes to Consolidated Financial Statements (unaudited).

4

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	—	—	—	—	995	—	—	995
Other comprehensive income	—	—	—	—	—	—	44	44
Common stock dividends, $0.52 per share	—	—	—	—	(253)	—	—	(253)
Preferred stock dividends [2]	—	—	—	—	(39)	—	—	(39)
Issuance of preferred stock, Series G	750	—	—	(7)	—	—	—	743
Repurchase of common stock	—	(11)	—	—	—	(654)	—	(654)
Exercise of stock options and stock compensation expense	—	1	—	(13)	—	25	—	12
Restricted stock activity	—	1	—	(17)	(2)	30	—	11
Balance, June 30, 2017	$1,975	482	$550	$8,973	$16,701	($2,945)	($777)	$24,477
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	—	—	—	—	1,365	—	—	1,365
Other comprehensive loss	—	—	—	—	—	—	(705)	(705)
Common stock dividends, $0.80 per share	—	—	—	—	(374)	—	—	(374)
Preferred stock dividends [2]	—	—	—	—	(55)	—	—	(55)
Redemption of preferred stock, Series E	(450)	—	—	—	—	—	—	(450)
Repurchase of common stock	—	(10)	—	—	—	(660)	—	(660)
Exercise of stock options and stock compensation expense	—	1	—	(1)	—	33	—	32
Exercise of stock warrant	—	2	2	—	—	—	—	2
Restricted stock activity	—	1	—	(19)	(4)	40	—	17
Balance, June 30, 2018	$2,025	465	$552	$8,980	$18,616	($4,178)	($1,679)	$24,316

[1] At June 30, 2018, includes ($4,281) million for treasury stock and $103 million for noncontrolling interest.
At June 30, 2017, includes ($3,048) million for treasury stock and $103 million for noncontrolling interest.
[2] For the six months ended June 30, 2018, dividends were $2,022 per share for both Series A and B Preferred Stock, $1,469 per share for Series E Preferred Stock, $2,813 per share for Series F Preferred Stock, $2,525 per share for Series G Preferred Stock, and $3,004 per share for Series H Preferred Stock.
For the six months ended June 30, 2017, dividends were $2,022 per share for both Series A and B Preferred Stock, $2,938 per share for Series E Preferred Stock, $2,813 per share for Series F Preferred Stock, and $828 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).

5

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Six Months Ended June 30	
(Dollars in millions) (Unaudited)	2018	2017
Cash Flows from Operating Activities:		
Net income including income attributable to noncontrolling interest	$1,369	$1,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	356	356
Origination of servicing rights	(156)	(169)
Provisions for credit losses and foreclosed property	65	214
Stock-based compensation	87	90
Net securities gains	(1)	(1)
Net gains on sale of loans held for sale, loans, and other assets	(28)	(102)
Net decrease in loans held for sale	14	1,425
Net (increase)/decrease in trading assets and derivative instruments	(166)	202
Net increase in other assets [1]	(1,158)	(617)
Net increase in other liabilities	409	742
Net cash provided by operating activities	791	3,140
Cash Flows from Investing Activities:		
Proceeds from maturities, calls, and paydowns of securities available for sale	1,807	1,992
Proceeds from sales of securities available for sale	1,920	660
Purchases of securities available for sale	(4,081)	(3,049)
Net increase in loans, including purchases of loans	(2,150)	(1,443)
Proceeds from sales of loans	180	230
Net cash paid for servicing rights	(60)	—
Payments for bank-owned life insurance policy premiums [1]	(1)	(126)
Capital expenditures	(109)	(146)
Proceeds from the sale of other real estate owned and other assets	102	143
Other investing activities [1]	6	5
Net cash used in investing activities	(2,386)	(1,734)
Cash Flows from Financing Activities:		
Net increase/(decrease) in total deposits	668	(525)
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	507	2,386
Proceeds from issuance of long-term debt	2,659	1,381
Repayments of long-term debt	(355)	(2,608)
Proceeds from the issuance of preferred stock	—	743
Repurchase of preferred stock	(450)	—
Repurchase of common stock	(660)	(654)
Common and preferred stock dividends paid	(429)	(286)
Taxes paid related to net share settlement of equity awards	(43)	(37)
Proceeds from exercise of stock options and warrants	34	12
Net cash provided by financing activities	1,931	412
Net increase in cash and cash equivalents	336	1,818
Cash and cash equivalents at beginning of period	6,912	6,423
Cash and cash equivalents at end of period	$7,248	$8,241
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans held for investment	$18	$10

Loans transferred from loans held for investment to loans held for sale	327	127
Loans transferred from loans held for investment and loans held for sale to other real estate owned	33	29
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 remaining impairment balance

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 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 a perfectly effective hypothetical derivative, 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 earnings 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 June 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 June 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

		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 $4 million and $7 million for the three and six months ended June 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.

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.	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. 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. Subsequent to adoption of these ASUs, the Company recognized net gains on certain of its equity investments during the first half of 2018. For additional information relating to these net gains, see Note 9, “Other Assets,” and Note 16, “Fair Value Election and Measurement.” The remaining provisions and disclosure requirements of these ASUs did not have a material impact on the Company's Consolidated Financial Statements and related disclosures upon adoption.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	The 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.	January 1, 2018	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. For the six months ended June 30, 2018 and 2017, the Company reclassified an immaterial amount and \$126 million, respectively, of cash payments for bank-owned life insurance policy premiums from operating activities to investing activities on the Company’s Consolidated Statements of Cash Flows. The remaining changes in presentation described above were immaterial for both the six months ended June 30, 2018 and 2017.
ASU 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting	This ASU amends ASC Topic 718, Stock Compensation, to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting per ASC Topic 718, Stock Compensation. The amendments clarify that modification	January 1, 2018	The Company adopted this ASU on January 1, 2018 and upon adoption, the ASU did not have a material impact on the Company's Consolidated Financial Statements and related disclosures.

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.

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	The 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 also 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	January 1, 2019 Early adoption is permitted.	The Company early adopted this ASU as of 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.

is enacted.

Standards Not Yet Adopted

ASU 2016-02, Leases (ASC Topic 842) and subsequent related ASUs	The 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. Upon transition, lessees and lessors have the option to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective transition approach or to apply the modified retrospective approach with an additional, optional transition method that initially applies this ASU as of the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.	January 1, 2019 Early adoption is permitted.	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 the control environment. The Company's adoption of this ASU, which is expected to occur on January 1, 2019, 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 June 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. Additionally, 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 any remaining deferred gains on sale-leaseback transactions which occurred prior to the date of adoption. The Company had approximately \$45 million of deferred gains on sale-leaseback transactions as of June 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.

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 2016-13, Measurement of Credit Losses on Financial Instruments	The 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. 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.	January 1, 2020 Early adoption is permitted beginning January 1, 2019.	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 software tool 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 currently 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 2017-04, Intangibles - Goodwill and Other (Topic	The 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	January 1, 2020	Based on the Company's most recent annual goodwill impairment test performed as of October 1, 2017, there were no reporting units for

350): Simplifying the Test for Goodwill Impairment	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 amount. Entities should recognize an impairment charge for the amount by which a reporting unit's carrying amount exceeds its fair value, but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis.	Early adoption is permitted.	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 Financial Statements and 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.

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 Consumer and Wholesale 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.

(Dollars in millions)	Three Months Ended June 30		Six Months Ended June 30	
Noninterest income	2018	2017	2018	2017
Revenue in scope of ASC Topic 606	$509	$514	$1,002	$1,023
Revenue out of scope of ASC Topic 606	320	313	624	651
Total noninterest income	$829	$827	$1,626	$1,674

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.

	Three Months Ended June 30, 2018 [1]			
(Dollars in millions)	Consumer [2]	Wholesale [2]	Out of Scope [2, 3]	Total
Noninterest income				
Service charges on deposit accounts	$115	$29	$—	$144
Other charges and fees	29	3	61	93
Card fees	57	26	2	85
Investment banking income	—	97	70	167
Trading income	—	—	53	53
Trust and investment management income	74	—	1	75
Retail investment services	73	—	—	73
Mortgage servicing related income	—	—	40	40
Mortgage production related income	—	—	43	43
Commercial real estate related income	—	—	18	18
Net securities gains	—	—	—	—
Other noninterest income	6	—	32	38
Total noninterest income	$354	$155	$320	$829

[1] Amounts are presented in accordance with ASC Topic 606, Revenue from Contracts with Customers, except for out of scope amounts.
[2] Consumer and Wholesale total noninterest income exclude $99 million and $233 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 includes ($12) million of Corporate Other noninterest income that is out of scope of 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.

	Three Months Ended June 30, 2017 [1]			
(Dollars in millions)	Consumer [2]	Wholesale [2]	Out of Scope [2, 3]	Total
Noninterest income				
Service charges on deposit accounts	$122	$29	$—	$151
Other charges and fees	33	3	67	103
Card fees	60	27	—	87
Investment banking income	—	89	58	147
Trading income	—	—	46	46
Trust and investment management income	74	—	2	76
Retail investment services	70	—	—	70

Mortgage servicing related income	—	—	44	44
Mortgage production related income	—	—	56	56
Commercial real estate related income	—	—	24	24
Net securities gains	—	—	1	1
Other noninterest income	7	—	15	22
Total noninterest income	$366	$148	$313	$827

[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 and Wholesale total noninterest income exclude $107 million and $230 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 includes ($24) million of Corporate Other noninterest income that is out of scope of 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.

Notes to Consolidated Financial Statements (Unaudited), continued

	Six Months Ended June 30, 2018 [1]			
(Dollars in millions)	Consumer [2]	Wholesale [2]	Out of Scope [2, 3]	Total
Noninterest income				
Service charges on deposit accounts	$219	$70	$—	$289
Other charges and fees	57	6	116	179
Card fees	111	52	3	166
Investment banking income	—	181	117	298
Trading income	—	—	95	95
Trust and investment management income	149	—	1	150
Retail investment services	143	2	—	145
Mortgage servicing related income	—	—	95	95
Mortgage production related income	—	—	79	79
Commercial real estate related income	—	—	42	42
Net securities gains	—	—	1	1
Other noninterest income	12	—	75	87
Total noninterest income	$691	$311	$624	$1,626

[1] Amounts are presented in accordance with ASC Topic 606, Revenue from Contracts with Customers, except for out of scope amounts.
[2] Consumer and Wholesale total noninterest income exclude $213 million and $440 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 includes ($29) million of Corporate Other noninterest income that is out of scope of 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.

	Six Months Ended June 30, 2017 [1]			
(Dollars in millions)	Consumer [2]	Wholesale [2]	Out of Scope [2, 3]	Total
Noninterest income				
Service charges on deposit accounts	$225	$74	$—	$299
Other charges and fees	64	6	128	198
Card fees	114	54	1	169
Investment banking income	—	185	129	314
Trading income	—	—	97	97
Trust and investment management income	149	—	2	151
Retail investment services	137	1	1	139
Mortgage servicing related income	—	—	102	102
Mortgage production related income	—	—	109	109
Commercial real estate related income	—	—	44	44

Net securities gains	—	—	1	1
Other noninterest income	14	—	37	51
Total noninterest income	$703	$320	$651	$1,674

[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 and Wholesale total noninterest income exclude $242 million and $451 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 includes ($42) million of Corporate Other noninterest income that is out of scope of 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.

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 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 six months ended June 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 June 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 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 $13 million and $26 million for the three and six months ended June 30, 2018, respectively, which relates to mutual fund 12b-1 fees and annuity trailing commissions from performance obligations satisfied in periods prior to June 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, "Securities Available for Sale."

Other Noninterest Income

Other noninterest income within the scope of ASC Topic 606 consists primarily of fees from the sale of custom 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 June 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)	June 30, 2018	December 31, 2017
Fed funds sold	$—	$65
Securities borrowed	545	298
Securities purchased under agreements to resell	820	1,175
Total Fed funds sold and securities borrowed or purchased under agreements to resell	$1,365	$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 June 30, 2018 and December 31, 2017, the total market value of collateral held was $1.4 billion and $1.5 billion, of which $138 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:

	June 30, 2018				December 31, 2017			
(Dollars in millions)	Overnight and Continuous	Up to 30 days	30-90 days	Total	Overnight and Continuous	Up to 30 days	30-90 days	Total
U.S. Treasury securities	$92	$—	$—	$92	$95	$—	$—	$95
Federal agency securities	86	17	—	103	101	15	—	116
MBS - agency	726	100	—	826	694	135	—	829
CP	—	—	—	—	19	—	—	19
Corporate and other debt securities	360	146	40	546	316	88	40	444
Total securities sold under agreements to repurchase	$1,264	$263	$40	$1,567	$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 June 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.

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
June 30, 2018						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,365	$—	$1,365	[1]	$1,346	$19
Financial liabilities:						
Securities sold under agreements to repurchase	1,567	—	1,567		1,566	1
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 $0 and $65 million of Fed Funds sold, which are not subject to a master netting agreement at June 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)	June 30, 2018	December 31, 2017
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	$203	$157
Federal agency securities	502	395
U.S. states and political subdivisions	27	61
MBS - agency	759	700
Corporate and other debt securities	872	655
CP	114	118
Equity securities	57	56
Derivative instruments [1]	567	802
Trading loans [2]	1,949	2,149
Total trading assets and derivative instruments	$5,050	$5,093
Trading Liabilities and Derivative Instruments:		
U.S. Treasury securities	$779	$577
MBS - agency	1	—
Corporate and other debt securities	534	289
Equity securities	14	9
Derivative instruments [1]	630	408
Total trading liabilities and derivative instruments	$1,958	$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 Securities Available for Sale" 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)	June 30, 2018	December 31, 2017
Pledged trading assets to secure repurchase agreements [1]	$1,092	$1,016
Pledged trading assets to secure certain derivative agreements	65	72
Pledged trading assets to secure other arrangements	40	41

[1] Repurchase agreements secured by collateral totaled $1.1 billion and $975 million at June 30, 2018 and December 31, 2017, respectively.

NOTE 5 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

	June 30, 2018			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$4,239	$—	$113	$4,126
Federal agency securities	244	1	2	243
U.S. states and political subdivisions	632	4	21	615
MBS - agency residential	22,883	134	558	22,459
MBS - agency commercial	2,664	1	97	2,568
MBS - non-agency commercial	950	—	34	916
Corporate and other debt securities	15	—	—	15
Total securities AFS	$31,627	$140	$825	$30,942

	December 31, 2017 [1]			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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:

	Three Months Ended June 30	Six Months Ended June 30

(Dollars in millions)	2018	2017	2018	2017
Taxable interest	$205	$184	$407	$364
Tax-exempt interest	5	3	9	5
Total interest on securities AFS [1]	$210	$187	$416	$369

[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, income associated with these equity securities was 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

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, certain derivative agreements, and other funds had a fair value of $3.3 billion and $4.3 billion at June 30, 2018 and December 31, 2017, respectively.
The following table presents the amortized cost, fair value, and weighted average yield of investments in securities AFS at

June 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.

	Distribution of Remaining Maturities				
(Dollars in millions)	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:					
U.S. Treasury securities	$15	$2,517	$1,707	$—	$4,239
Federal agency securities	117	40	4	83	244
U.S. states and political subdivisions	3	61	37	531	632
MBS - agency residential	1,531	6,089	14,985	278	22,883
MBS - agency commercial	1	482	1,911	270	2,664
MBS - non-agency commercial	—	12	938	—	950
Corporate and other debt securities	7	8	—	—	15
Total securities AFS	$1,674	$9,209	$19,582	$1,162	$31,627
Fair Value:					
U.S. Treasury securities	$15	$2,454	$1,657	$—	$4,126
Federal agency securities	117	41	4	81	243
U.S. states and political subdivisions	4	62	38	511	615
MBS - agency residential	1,589	6,031	14,566	273	22,459
MBS - agency commercial	1	465	1,844	258	2,568
MBS - non-agency commercial	—	12	904	—	916
Corporate and other debt securities	7	8	—	—	15
Total securities AFS	$1,733	$9,073	$19,013	$1,123	$30,942
Weighted average yield [1]	3.19 %	2.36 %	2.87 %	3.12 %	2.74 %

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

Notes to Consolidated Financial Statements (Unaudited), continued

Securities AFS in an Unrealized Loss Position

The Company held certain investment securities AFS 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 June 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.

Securities AFS in an unrealized loss position at period end are presented in the following tables:

	June 30, 2018					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses [1]	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses [1]
Temporarily impaired securities AFS:						
U.S. Treasury securities	$3,441	$87	$685	$26	$4,126	$113
Federal agency securities	24	—	51	2	75	2
U.S. states and political subdivisions	396	15	106	6	502	21
MBS - agency residential	13,786	355	4,351	203	18,137	558
MBS - agency commercial	1,554	45	882	52	2,436	97
MBS - non-agency commercial	797	28	89	6	886	34
Corporate and other debt securities	9	—	—	—	9	—
Total temporarily impaired securities AFS	20,007	530	6,164	295	26,171	825
OTTI securities AFS [2]:						
Total OTTI securities AFS	—	—	—	—	—	—
Total impaired securities AFS	$20,007	$530	$6,164	$295	$26,171	$825

[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.

	December 31, 2017 [1]					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	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	—

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.

At June 30, 2018, temporarily impaired securities AFS that have been in an unrealized loss position for twelve months or longer included residential and commercial agency MBS, U.S. Treasury securities, municipal securities, commercial non-agency MBS, and federal agency securities. Unrealized losses on temporarily

impaired securities were due to market interest rates being higher than the securities' stated coupon rates. Unrealized losses on securities AFS that relate to factors other than credit are recorded in AOCI, net of tax.

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

Securities AFS 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. 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 six months ended June 30, 2018 and 2017, there were no credit impairment losses recognized on securities AFS held at the end of each period. During the three and six months ended June 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 $22 million at June 30, 2017.

NOTE 6 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	June 30, 2018	December 31, 2017
Commercial loans:		
C&I [1]	$67,343	$66,356
CRE	6,302	5,317
Commercial construction	3,456	3,804
Total commercial LHFI	77,101	75,477
Consumer loans:		
Residential mortgages - guaranteed	525	560
Residential mortgages - nonguaranteed [2]	27,556	27,136
Residential home equity products	9,918	10,626
Residential construction	217	298
Guaranteed student	6,892	6,633
Other direct	9,448	8,729
Indirect	11,712	12,140
Credit cards	1,566	1,582
Total consumer LHFI	67,834	67,704
LHFI	$144,935	$143,181
LHFS [3]	$2,283	$2,290

[1] Includes $3.8 billion and $3.7 billion of lease financing, and $800 million and $778 million of installment loans at June 30, 2018 and December 31, 2017, respectively.

[2] Includes $177 million and $196 million of LHFI measured at fair value at June 30, 2018 and December 31, 2017, respectively.

[3] Includes $2.0 billion and $1.6 billion of LHFS measured at fair value at June 30, 2018 and December 31, 2017, respectively.

During the three months ended June 30, 2018 and 2017, the Company transferred $123 million and $67 million of LHFI to LHFS, and $12 million and $3 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 $137 million and $110 million of loans and leases during the three months ended June 30, 2018 and 2017, respectively, at a price approximating their recorded investment.

During the six months ended June 30, 2018 and 2017, the Company transferred $327 million and $127 million of LHFI to LHFS, and transferred $18 million and $10 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 $172 million and $228 million of loans and leases during the six months ended June 30, 2018 and 2017, respectively, at a price approximating their recorded investment.

During the three months ended June 30, 2018 and 2017, the Company purchased $532 million and $493 million, respectively, of guaranteed student loans. During both the six months ended June 30, 2018 and 2017, the Company purchased $1.0 billion of guaranteed student loans, and purchased $16 million and $99 million of consumer indirect loans, respectively.

At June 30, 2018 and December 31, 2017, the Company had $25.0 billion and $24.3 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support $18.7 billion and $18.2 billion of available, unused borrowing capacity, respectively.

At June 30, 2018 and December 31, 2017, the Company had $39.3 billion and $38.0 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support $31.3 billion and $30.5 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at June 30, 2018 was used to support $1.8 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 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 June 30, 2018 and December 31, 2017, 30% and

28%, respectively, of guaranteed residential mortgages were current with respect to payments. At June 30, 2018 and December 31, 2017, 77% 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:

	Commercial Loans					
	C&I		CRE		Commercial Construction	
(Dollars in millions)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Risk rating:						
Pass	$65,511	$64,546	$6,100	$5,126	$3,410	$3,770
Criticized accruing	1,536	1,595	157	167	46	33
Criticized nonaccruing	296	215	45	24	—	1
Total	$67,343	$66,356	$6,302	$5,317	$3,456	$3,804

	Consumer Loans [1]					
	Residential Mortgages - Nonguaranteed		Residential Home Equity Products		Residential Construction	
(Dollars in millions)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current FICO score range:						
700 and above	$24,204	$23,602	$8,403	$8,946	$173	$240
620 - 699	2,604	2,721	1,100	1,242	37	50
Below 620 [2]	748	813	415	438	7	8
Total	$27,556	$27,136	$9,918	$10,626	$217	$298

	Other Direct		Indirect		Credit Cards	
(Dollars in millions)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current FICO score range:						
700 and above	$8,610	$7,929	$8,843	$9,094	$1,078	$1,088
620 - 699	795	757	2,188	2,344	385	395
Below 620 [2]	43	43	681	702	103	99
Total	$9,448	$8,729	$11,712	$12,140	$1,566	$1,582

[1] Excludes $6.9 billion and $6.6 billion of guaranteed student loans and $525 million and $560 million of guaranteed residential mortgages at June 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 LHFI portfolio by payment status is presented in the following tables:

	June 30, 2018				
	Accruing				
(Dollars in millions)	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccruing [1]	Total
Commercial loans:					
C&I	$67,001	$32	$14	$296	$67,343
CRE	6,242	15	—	45	6,302
Commercial construction	3,443	13	—	—	3,456
Total commercial LHFI	76,686	60	14	341	77,101
Consumer loans:					
Residential mortgages - guaranteed	157	42	326	— [3]	525
Residential mortgages - nonguaranteed [2]	27,256	53	7	240	27,556
Residential home equity products	9,708	60	—	150	9,918
Residential construction	205	—	2	10	217
Guaranteed student	5,320	697	875	— [3]	6,892
Other direct	9,406	30	4	8	9,448
Indirect	11,618	88	—	6	11,712
Credit cards	1,539	13	14	—	1,566
Total consumer LHFI	65,209	983	1,228	414	67,834
Total LHFI	$141,895	$1,043	$1,242	$755	$144,935

[1] Includes nonaccruing LHFI past due 90 days or more of $363 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 $177 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.

	December 31, 2017				
	Accruing				
(Dollars in millions)	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccruing [1]	Total
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 LHFI	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

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.

	June 30, 2018			December 31, 2017		
(Dollars in millions)	Unpaid Principal Balance	Carrying Value [1]	Related ALLL	Unpaid Principal Balance	Carrying Value [1]	Related ALLL
Impaired LHFI with no ALLL recorded:						
Commercial loans:						
C&I	$35	$33	$—	$38	$35	$—
CRE	47	41	—	—	—	—
Total commercial LHFI with no ALLL recorded	82	74	—	38	35	—
Consumer loans:						
Residential mortgages - nonguaranteed	481	385	—	458	363	—
Residential construction	12	7	—	15	9	—
Total consumer LHFI with no ALLL recorded	493	392	—	473	372	—
Impaired LHFI with an ALLL recorded:						
Commercial loans:						
C&I	195	182	26	127	117	19
CRE	—	—	—	21	21	2
Total commercial LHFI with an ALLL recorded	195	182	26	148	138	21
Consumer loans:						
Residential mortgages - nonguaranteed	1,079	1,048	105	1,133	1,103	113
Residential home equity products	900	847	51	953	895	54
Residential construction	87	83	6	93	90	7
Other direct	58	58	1	59	59	1
Indirect	131	130	7	123	122	7
Credit cards	28	8	1	26	7	1
Total consumer LHFI with an ALLL recorded	2,283	2,174	171	2,387	2,276	183
Total impaired LHFI	$3,053	$2,822	$197	$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 both June 30, 2018 and December 31, 2017 were $2.4 billion of accruing TDRs, of which 98% 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.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended June 30				Six Months Ended June 30			
	2018		2017		2018		2017	
	Average Amortized Cost	Interest Income Recognized [1]	Average Amortized Cost	Interest Income Recognized [1]	Average Carrying Value	Interest Income Recognized [1]	Average Carrying Value	Interest Income Recognized [1]
Impaired LHFI with no ALLL recorded:								
Commercial loans:								
C&I	$46	$1	$127	$4	$47	$1	$118	$4
CRE	42	—	—	—	44	—	—	—
Total commercial LHFI with no ALLL recorded	88	1	127	4	91	1	118	4
Consumer loans:								
Residential mortgages - nonguaranteed	383	4	358	4	378	7	356	7
Residential construction	7	—	9	—	7	—	9	—
Total consumer LHFI with no ALLL recorded	390	4	367	4	385	7	365	7
Impaired LHFI with an ALLL recorded:								
Commercial loans:								
C&I	184	1	153	1	185	2	156	1
CRE	—	—	16	—	—	—	17	—
Total commercial LHFI with an ALLL recorded	184	1	169	1	185	2	173	1
Consumer loans:								
Residential mortgages - nonguaranteed	1,053	13	1,180	15	1,064	26	1,186	31
Residential home equity products	849	9	859	8	854	18	864	16
Residential construction	84	1	101	1	85	3	101	2
Other direct	58	1	58	1	58	2	59	2
Indirect	133	2	120	1	137	3	125	3
Credit cards	8	—	6	—	7	—	6	—
Total consumer LHFI with an ALLL recorded	2,185	26	2,324	26	2,205	52	2,341	54
Total impaired LHFI	$2,847	$32	$2,987	$35	$2,866	$62	$2,997	$66

[1] Of the interest income recognized during each of the three and six months ended June 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)	June 30, 2018	December 31, 2017
NPAs:		
Commercial NPLs:		
C&I	$296	$215
CRE	45	24
Commercial construction	—	1
Consumer NPLs:		
Residential mortgages - nonguaranteed	240	206
Residential home equity products	150	203
Residential construction	10	11
Other direct	8	7
Indirect	6	7
Total nonaccrual loans/NPLs [1]	755	674
OREO [2]	53	57
Other repossessed assets	6	10
Total NPAs	$814	$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 $44 million and $45 million at June 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 June 30, 2018 and December 31, 2017 was $77 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 June 30, 2018 and December 31, 2017 was $107 million and $101 million, of which $98 million and $97 million were insured by the FHA or guaranteed by the VA, respectively.

At June 30, 2018, OREO included $49 million of foreclosed residential real estate properties and $2 million of foreclosed commercial real estate properties, with the remaining $2 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 June 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:

	Three Months Ended June 30, 2018 [1]			
(Dollars in millions)	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	29	$—	$29	$29
Consumer loans:				
Residential mortgages - nonguaranteed	159	8	32	40
Residential home equity products	144	—	12	12
Residential construction	3	—	—	—
Other direct	214	—	3	3
Indirect	617	—	16	16
Credit cards	426	2	—	2
Total TDR additions	1,592	$10	$92	$102

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

	Six Months Ended June 30, 2018 [1]			
(Dollars in millions)	Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	75	$—	$84	$84
Consumer loans:				
Residential mortgages - nonguaranteed	219	17	38	55
Residential home equity products	280	—	24	24
Residential construction	4	—	—	—
Other direct	328	—	5	5
Indirect	1,395	—	35	35
Credit cards	734	3	—	3
Total TDR additions	3,035	$20	$186	$206

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

28

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended June 30, 2017 [1] Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	30	$—	$38	$38
Consumer loans:				
Residential mortgages - nonguaranteed	45	7	2	9
Residential home equity products	621	—	61	61
Other direct	180	—	2	2
Indirect	750	—	19	19
Credit cards	163	1	—	1
Total TDR additions	1,789	$8	$122	$130

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

(Dollars in millions)	Six Months Ended June 30, 2017 [1] Number of Loans Modified	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:				
C&I	60	$—	$39	$39
Consumer loans:				
Residential mortgages - nonguaranteed	79	11	4	15
Residential home equity products	1,276	—	124	124
Other direct [2]	290	—	4	4
Indirect	1,297	—	32	32
Credit cards	398	2	—	2
Total TDR additions	3,400	$13	$203	$216

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

TDRs that defaulted during the three and six months ended June 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 Company operates primarily within Florida, Georgia, Virginia, Maryland, and North Carolina. The Company’s cross-border outstanding loans totaled $1.3 billion and $1.4 billion at June 30, 2018 and December 31, 2017, respectively.

With respect to collateral concentration, the Company's recorded investment in residential real estate secured LHFI totaled $38.2 billion at June 30, 2018 and represented 26% of total LHFI. At December 31, 2017, the Company's recorded investment in residential real estate secured LHFI totaled $38.6 billion and represented 27% of total LHFI. Additionally, at June 30, 2018 and December 31, 2017, the Company had commitments to extend credit on home equity lines of $10.1 billion, and had residential mortgage commitments outstanding of $3.8 billion and $3.0 billion, respectively. At both June 30, 2018 and December 31, 2017, 1% of the Company's LHFI 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:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
(Dollars in millions)	Commercial	Consumer	Total	Commercial	Consumer	Total
ALLL, beginning of period	$1,068	$626	$1,694	$1,101	$634	$1,735
Provision for loan losses	17	12	29	1	66	67
Loan charge-offs	(21)	(80)	(101)	(44)	(163)	(207)
Loan recoveries	4	24	28	10	45	55
ALLL, end of period	1,068	582	1,650	1,068	582	1,650
Unfunded commitments reserve, beginning of period [1]	69	—	69	79	—	79
Provision/(benefit) for unfunded commitments	3	—	3	(7)	—	(7)
Unfunded commitments reserve, end of period [1]	72	—	72	72	—	72
Allowance for credit losses	$1,140	$582	$1,722	$1,140	$582	$1,722

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

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
(Dollars in millions)	Commercial	Consumer	Total	Commercial	Consumer	Total
ALLL, beginning of period	$1,120	$594	$1,714	$1,124	$585	$1,709
Provision for loan losses	39	48	87	84	120	204
Loan charge-offs	(26)	(75)	(101)	(89)	(159)	(248)
Loan recoveries	7	24	31	21	45	66
ALLL, end of period	1,140	591	1,731	1,140	591	1,731
Unfunded commitments reserve, beginning of period [1]	69	—	69	67	—	67
Provision for unfunded commitments	3	—	3	5	—	5
Unfunded commitments reserve, end of period [1]	72	—	72	72	—	72
Allowance for credit losses	$1,212	$591	$1,803	$1,212	$591	$1,803

[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.

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

	June 30, 2018					
	Commercial Loans		Consumer Loans		Total	
(Dollars in millions)	Carrying Value	Related ALLL	Carrying Value	Related ALLL	Carrying Value	Related ALLL
LHFI evaluated for impairment:						
Individually evaluated	$256	$26	$2,566	$171	$2,822	$197
Collectively evaluated	76,845	1,042	65,091	411	141,936	1,453
Total evaluated	77,101	1,068	67,657	582	144,758	1,650
LHFI measured at fair value	—	—	177	—	177	—
Total LHFI	$77,101	$1,068	$67,834	$582	$144,935	$1,650

	December 31, 2017					
	Commercial Loans		Consumer Loans		Total	
(Dollars in millions)	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 and second 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 six months ended June 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 six months ended June 30, 2018 are presented in the following table. There were no material changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2017.

(Dollars in millions)	Consumer	Wholesale	Total
Balance, January 1, 2018	$4,262	$2,069	$6,331
Reallocation related to intersegment transfer of business banking clients	128	(128)	—
Balance, June 30, 2018	$4,390	$1,941	$6,331

31

Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

Changes in the carrying amounts of other intangible assets for the six months ended June 30 are presented in the following table:

(Dollars in millions)	Residential MSRs - Fair Value	Commercial Mortgage Servicing Rights and Other	Total
Balance, January 1, 2018	$1,710	$81	$1,791
Amortization [1]	—	(11)	(11)
Servicing rights originated	149	7	156
Servicing rights purchased	75	—	75
Changes in fair value:			
Due to changes in inputs and assumptions [2]	146	—	146
Other changes in fair value [3]	(120)	—	(120)
Servicing rights sold	(1)	—	(1)
Balance, June 30, 2018	$1,959	$77	$2,036
Balance, January 1, 2017	$1,572	$85	$1,657
Amortization [1]	—	(10)	(10)
Servicing rights originated	162	7	169
Changes in fair value:			
Due to changes in inputs and assumptions [2]	(16)	—	(16)
Other changes in fair value [3]	(109)	—	(109)
Servicing rights sold	(1)	—	(1)
Other [4]	—	(1)	(1)
Balance, June 30, 2017	$1,608	$81	$1,689

[1] Does not include expense associated with non-qualified 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)	June 30, 2018 Gross Carrying Value	Accumulated Amortization	Net Carrying Value	December 31, 2017 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized other intangible assets [1]:						
Commercial mortgage servicing rights	$86	($23)	$63	$79	($14)	$65
Other	20	(18)	2	32	(28)	4
Unamortized other intangible assets:						
Residential MSRs	1,959	—	1,959	1,710	—	1,710
Other	12	—	12	12	—	12
Total other intangible assets	$2,077	($41)	$2,036	$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 MSRs 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 June 30		Six Months Ended June 30	
(Dollars in millions)	2018	2017	2018	2017
Income from residential MSRs [1]	$107	$101	$214	$202

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	June 30, 2018	December 31, 2017
UPB of loans underlying residential MSRs	$140,328	$136,071

The Company purchased MSRs on residential loans with a UPB of $5.9 billion during the six months ended June 30, 2018. No MSRs on residential loans were purchased during the six months ended June 30, 2017. During the six months ended June 30, 2018 and 2017, the Company sold MSRs on residential loans, at a price approximating their fair value, with a UPB of $221 million and $217 million, respectively.

The Company measures the fair value of its residential MSRs 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 quarterly, evaluating these inputs compared to 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 key inputs used to estimate the fair value of the Company’s residential MSRs at June 30, 2018 and December 31, 2017, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those inputs, are presented in the following table.

(Dollars in millions)	June 30, 2018		December 31, 2017	
Fair value of residential MSRs	$1,959		$1,710	
Prepayment rate assumption (annual)	13	%	13	%
Decline in fair value from 10% adverse change	$92		$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	$49		$47	
Decline in fair value from 20% adverse change	93		90	
Weighted-average life (in years)	5.7		5.4	
Weighted-average coupon	4.0	%	3.9	%

These residential MSR sensitivities 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 sensitivities. The sensitivities do not reflect the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSRs. 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.

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2018	2017	2018	2017

Income from commercial mortgage servicing rights [1]	$7	$6	$14	$11
Income from subservicing third party commercial mortgages [1]	3	4	6	8

[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)	June 30, 2018	December 31, 2017
UPB of commercial mortgages subserviced for third parties	$25,998	$24,294
UPB of loans underlying commercial mortgage servicing rights	5,894	5,760
Total UPB of commercial mortgages serviced for third parties	$31,892	$30,054

No commercial mortgage servicing rights were purchased or sold during the six months ended June 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 were $63 million and $65 million at June 30, 2018 and December 31, 2017, respectively.

A summary of the key inputs used to estimate the fair value of the Company’s commercial mortgage servicing rights at June 30, 2018 and December 31, 2017, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those inputs, are presented in the following table.

(Dollars in millions)	June 30, 2018		December 31, 2017	
Fair value of commercial mortgage servicing rights	$76		$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)	7.5		7.0	
Float earnings rate (annual)	1.1	%	1.1	%

Commercial mortgage servicing right sensitivities 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)	June 30, 2018	December 31, 2017
Non-trading equity securities:		
Marketable equity securities:		
Mutual fund investments [1]	$95	$49
Other equity [1, 2]	31	7
Nonmarketable equity securities:		
Federal Reserve Bank stock [1]	403	403
FHLB stock [1]	90	15
Other equity [2]	42	26
Lease assets	1,705	1,528
Tax credit investments [3]	1,434	1,272
Bank-owned life insurance	1,409	1,411
Accrued income	995	880
Accounts receivable	860	2,201
Pension assets, net	497	464
Prepaid expenses	257	319
OREO	53	57
Other	921	786
Total other assets	$8,792	$9,418

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

[3] 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 June 30, 2018	Six Months Ended June 30, 2018
Net gains from marketable equity securities [1]	$13	$14

Net gains/(losses) from nonmarketable equity securities:		
Remeasurement losses and impairment	—	—
Remeasurement gains [1]	—	23
Less: Net realized gains from sale	—	—
Total net unrealized gains from non-trading equity securities	$13	$37

[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.

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.

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 the three and six months ended June 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 six months ended June 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 six months ended June 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 $19 million and $7 million for the three and six

months ended June 30, 2018, and pre-tax net gains of $83 million and $79 million for the three and six months ended June 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 for the three and six months ended June 30, 2018, recognized in Net securities gains on the Consolidated

Statements of Income. The fair value of retained securities was immaterial at June 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 our aforementioned sale of securities AFS in the second quarter of 2018, the Company’s remaining VI in the securitization entity was immaterial at June 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 June 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 June 30, 2018 and December 31, 2017, the Company’s Consolidated Balance Sheets reflected $177 million and $192 million of assets held by

the securitization entity and $174 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 $5 million and $14 million for the three and six months ended June 30, 2018, and pre-tax net gains of $3 million and $17 million for the three and six months ended June 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 June 30, 2018 and December 31, 2017, as well as the related net charge-offs for the three and six months ended June 30, 2018 and 2017.

	Portfolio Balance		Past Due and Nonaccrual		Net Charge-offs			
					Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	2018	2017	2018	2017
LHFI portfolio:								
Commercial	$77,101	$75,477	$355	$247	$17	$19	$34	$68
Consumer	67,834	67,704	1,642	1,832	56	51	118	114
Total LHFI portfolio	144,935	143,181	1,997	2,079	73	70	152	182
Managed securitized loans:								
Commercial [1]	5,894	5,760	—	—	—	—	—	—
Consumer	138,585	134,160	295	171	1 [2]	1 [2]	3 [2]	4 [2]
Total managed securitized loans	144,479							