

SUNTRUST BANKS INC  
Form 10-Q  
November 02, 2018

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

FORM 10-Q

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

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

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

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

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

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

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

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

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

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GLOSSARY OF DEFINED TERMS

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

ABS — Asset-backed securities.

ACH — Automated clearing house.

AFS — Available for sale.

AIP — Annual Incentive Plan.

ALM — Asset/Liability management.

ALLL — Allowance for loan and lease losses.

AOCI — Accumulated other comprehensive income.

ASC — Accounting Standards Codification.

ASU — Accounting Standards Update.

ATE — Additional termination event.

ATM — Automated teller machine.

Bank — SunTrust Bank.

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

BCBS — Basel Committee on Banking Supervision.

BHC — Bank holding company.

Board — the Company's Board of Directors.

bps — Basis points.

CCAR — Comprehensive Capital Analysis and Review.

CCB — Capital conservation buffer.

CD — Certificate of deposit (time deposit).

CDR — Conditional default rate.

CDS — Credit default swaps.

CEO — Chief Executive Officer.

CET1 — Common Equity Tier 1 Capital.

CFO — Chief Financial Officer.

CIB — Corporate and investment banking.

C&I — Commercial and industrial.

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

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

CME — Chicago Mercantile Exchange.

Company — SunTrust Banks, Inc.

CP — Commercial paper.

CPR — Conditional prepayment rate.

CRE — Commercial real estate.

CSA — Credit support annex.

DDA — Demand deposit account.

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

DOJ — Department of Justice.

DTA — Deferred tax asset.

DTL — Deferred tax liability.

DVA — Debit valuation adjustment.

EPS — Earnings per share.

ER — Enterprise Risk.

ERISA — Employee Retirement Income Security Act of 1974.

Exchange Act — Securities Exchange Act of 1934.

Fannie Mae — Federal National Mortgage Association.

FASB — Financial Accounting Standards Board.

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

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

PD — Probability of default.

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

PPNR — Pre-provision net revenue.

PWM — Private Wealth Management.

REIT — Real estate investment trust.

ROA — Return on average total assets.

ROE — Return on average common shareholders' equity.

ROTCE — Return on average tangible common shareholders' equity.

RSU — Restricted stock unit.

RWA — Risk-weighted assets.

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

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



**PART I - FINANCIAL INFORMATION**

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

## Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

## Consolidated Statements of Income

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.  
Consolidated Statements of Comprehensive Income

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.  
Consolidated Balance Sheets

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

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Preferred shares outstanding	20	25
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	94,038	79,133
<sup>1</sup> Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	\$1,362	\$1,086
<sup>2</sup> Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral	164	223
<sup>3</sup> 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.		
<sup>4</sup> Includes loans held for investment of consolidated VIEs	159	179
<sup>5</sup> Includes debt of consolidated VIEs	168	189
<sup>6</sup> Includes noncontrolling interest	101	103
<sup>7</sup> Includes restricted shares	7	9

See accompanying Notes to Consolidated Financial Statements (unaudited).

## SunTrust Banks, Inc.

## Consolidated Statements of Shareholders' Equity

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

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

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

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

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

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



See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.  
Consolidated Statements of Cash Flows

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

Supplemental Disclosures:

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

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

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

Changes in Significant Accounting Policies

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

Revenue Recognition

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

Trading Activities and Securities AFS

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

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

component of Noninterest income in the Consolidated Statements of Income.

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

unrealized losses recorded in OCI.

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

#### Equity Securities

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

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

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

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

#### Derivative Instruments and Hedging Activities

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

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

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

## Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

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

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

#### Subsequent Events

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

#### Accounting Pronouncements

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

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

Standards Adopted in 2018

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

These ASUs comprise ASC Topic 606, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

January 1, 2018

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

## Notes to Consolidated Financial Statements (Unaudited), continued

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



disclosures upon adoption.

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

Scope of  
Modification  
Accounting

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

Consolidated Financial Statements  
or related disclosures.

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Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

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

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

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

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

January 1, 2020

Early adoption is permitted beginning January 1, 2019.

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

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

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

January 1, 2020

Early adoption is permitted.

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

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

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

## NOTE 2 – REVENUE RECOGNITION

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

## Interest Income

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

## Noninterest Income

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



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

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Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

<sup>3</sup> 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.

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

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

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

<sup>1</sup> 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.

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

<sup>3</sup> 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.

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

## Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

<sup>3</sup> 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.

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

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

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

<sup>1</sup> 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.

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

<sup>3</sup> 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.

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

#### Service Charges on Deposit Accounts

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

#### Other Charges and Fees

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

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

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

#### Card Fees

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

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

#### Investment Banking Income

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

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

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

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

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

Revenue related to trade execution services is earned on the trade date and recognized at a point in time. The fees related to trade execution services are due on the settlement date.

#### Trading Income

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

#### Trust and Investment Management Income

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

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

#### Retail Investment Services

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

#### Mortgage Servicing Related Income

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

#### Mortgage Production Related Income

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

#### Commercial Real Estate Related Income

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

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

#### Net Securities Gains or Losses

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



#### Other Noninterest Income

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

#### Practical Expedients and Other

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

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

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

## Notes to Consolidated Financial Statements (Unaudited), continued

## NOTE 3 - FEDERAL FUNDS SOLD AND SECURITIES FINANCING ACTIVITIES

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

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

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

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which the securities will be subsequently resold, plus accrued interest. Securities borrowed are primarily collateralized by corporate securities. The Company borrows securities and purchases securities under agreements to resell as part of its securities financing activities. On the acquisition date of these securities, the Company and the

related counterparty agree on the amount of collateral required to secure the principal amount loaned under these arrangements. The Company monitors collateral values daily and calls for additional collateral to be provided as warranted under the respective agreements. At September 30, 2018 and December 31, 2017, the total market value of collateral held was \$1.3 billion and \$1.5 billion, of which \$112 million and \$177 million was repledged, respectively.

## Securities Sold Under Agreements to Repurchase

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

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

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

## Netting of Securities - Repurchase and Resell Agreements

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

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

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

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

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## Notes to Consolidated Financial Statements (Unaudited), continued

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