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

TABLE OF CONTENTS

		Page
GLOSSARY OF DEFINED TERMS		i
PART I - FINANCIAL INFORMATION		1
Item 1.	Financial Statements (Unaudited)	2
	Consolidated Statements of Income	2
	Consolidated Statements of Comprehensive Income	3
	Consolidated Balance Sheets	4
	Consolidated Statements of Shareholders’ Equity	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements (Unaudited)	7
	Note 1 - Significant Accounting Policies	7
	Note 2 - Revenue Recognition	12
	Note 3 - Federal Funds Sold and Securities Financing Activities	17
	Note 4 - Trading Assets and Liabilities and Derivative Instruments	18
	Note 5 - Investment Securities	19
	Note 6 - Loans	23
	Note 7 - Allowance for Credit Losses	31
	Note 8 - Goodwill and Other Intangible Assets	32
	Note 9 - Other Assets	35
	Note 10 - Certain Transfers of Financial Assets and Variable Interest Entities	36
	Note 11 - Net Income Per Common Share	39
	Note 12 - Income Taxes	39
	Note 13 - Employee Benefit Plans	40
	Note 14 - Guarantees	41
	Note 15 - Derivative Financial Instruments	43
	Note 16 - Fair Value Election and Measurement	51
	Note 17 - Contingencies	65
	Note 18 - Business Segment Reporting	67
	Note 19 - Accumulated Other Comprehensive Loss	71
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operation	73
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	105
Item 4.	Controls and Procedures	105
PART II - OTHER INFORMATION		105
Item 1.	Legal Proceedings	105
Item 1A.	Risk Factors	105
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	107
Item 3.	Defaults Upon Senior Securities	108
Item 4.	Mine Safety Disclosures	108
Item 5.	Other Information	108
Item 6.	Exhibits	108
SIGNATURE		109

GLOSSARY OF DEFINED TERMS

2017 Tax Act — Tax Cuts and Jobs Act of 2017.
ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
AIP — Annual Incentive Plan.
ALM — Asset/Liability management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ASC — Accounting Standards Codification.
ASU — Accounting Standards Update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.
BCBS — Basel Committee on Banking Supervision.
BHC — Bank holding company.
Board — the Company's Board of Directors.
bps — Basis points.
CCAR — Comprehensive Capital Analysis and Review.
CCB — Capital conservation buffer.
CD — Certificate of deposit (time deposit).
CDR — Conditional default rate.
CDS — Credit default swaps.
CEO — Chief Executive Officer.
CET1 — Common Equity Tier 1 Capital.
CFO — Chief Financial Officer.
CIB — Corporate and investment banking.
C&I — Commercial and industrial.
Class A shares — Visa Inc. Class A common stock.
Class B shares — Visa Inc. Class B common stock.
CME — Chicago Mercantile Exchange.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPR — Conditional prepayment rate.
CRE — Commercial real estate.
CSA — Credit support annex.
DDA — Demand deposit account.
Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DOJ — Department of Justice.
DTA — Deferred tax asset.
DTL — Deferred tax liability.
DVA — Debit valuation adjustment.
EPS — Earnings per share.
ER — Enterprise Risk.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.
Fannie Mae — Federal National Mortgage Association.
FASB — Financial Accounting Standards Board.

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

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

PD — Probability of default.
Pillar — substantially all of the assets of the operating subsidiaries of Pillar Financial, LLC.
PPNR — Pre-provision net revenue.
PWM — Private Wealth Management.
REIT — Real estate investment trust.
ROA — Return on average total assets.
ROE — Return on average common shareholders’ equity.
ROTCE — Return on average tangible common shareholders' equity.
RSU — Restricted stock unit.
RWA — Risk-weighted assets.

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

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

PART I - FINANCIAL INFORMATION

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

Item 1. FINANCIAL STATEMENTS (UNAUDITED)
SunTrust Banks, Inc.
Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2018	2017	2018	2017
Interest Income				
Interest and fees on loans held for investment	$1,549	$1,382	$4,424	$4,009
Interest and fees on loans held for sale	22	24	67	70
Interest on securities available for sale [1]	212	191	628	560
Trading account interest and other [1]	51	38	142	108
Total interest income	1,834	1,635	5,261	4,747
Interest Expense				
Interest on deposits	193	111	484	286
Interest on long-term debt	95	76	252	216
Interest on other borrowings	34	18	85	46
Total interest expense	322	205	821	548
Net interest income	1,512	1,430	4,440	4,199
Provision for credit losses	61	120	121	330
Net interest income after provision for credit losses	1,451	1,310	4,319	3,869
Noninterest Income				
Service charges on deposit accounts	144	154	433	453
Other charges and fees [2]	89	89	264	270
Card fees	75	86	241	255
Investment banking income [2]	150	169	453	501
Trading income	42	51	137	148
Trust and investment	80	79	230	229

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

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

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

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

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

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

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

[1] At September 30, 2018, includes ($4,777) million for treasury stock, less than ($1) million for the compensation element of restricted stock, and $101 million for noncontrolling interest.
At September 30, 2017, includes ($3,374) million for treasury stock, less than ($1) million for the compensation element of restricted stock, and $101 million for noncontrolling interest.
[2] For the nine months ended September 30, 2018, dividends were $3,044 per share for both Series A and B Preferred Stock, $1,469 per share for Series E Preferred Stock, $4,219 per share for Series F Preferred Stock, $3,788 per share for Series G Preferred Stock, and $4,285 per share for Series H Preferred Stock.
For the nine months ended September 30, 2017, dividends were $3,044 per share for both Series A and B Preferred Stock, $4,406 per share for Series E Preferred Stock, $4,219 per share for Series F Preferred Stock, and $2,090 per share for Series G Preferred Stock.
[3] Related to the Company's adoption of ASU 2014-09, ASU 2016-01, ASU 2017-12, and ASU 2018-02 on January 1, 2018. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

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

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

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

6

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

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

Standards Adopted in 2018		Adoption	
ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606) and subsequent related ASUs	These ASUs comprise ASC Topic 606, Revenue from Contracts with Customers, which supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	January 1, 2018	The Company adopted these ASUs on a modified retrospective basis beginning January 1, 2018. Upon adoption, the Company recognized an immaterial cumulative effect adjustment that resulted in a decrease to the beginning balance of retained earnings as of January 1, 2018. Furthermore, the Company prospectively changed the presentation of certain types of revenue and expenses, such as underwriting revenue within investment banking income which is shown on a gross basis, and certain cash promotions and card network expenses, which were reclassified from noninterest expense to service charges on deposit accounts, card fees, and other charges and fees. The net quantitative impact of these presentation changes decreased both revenue and expenses by $9 million and $16 million for the three and nine months ended September 30, 2018, respectively; however, these presentation changes did not have an impact on net income. Prior period balances have not been restated to reflect these presentation changes. See Note 2, “Revenue Recognition,” for disclosures relating to ASC Topic 606.

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 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." The remaining provisions and disclosure requirements of these ASUs did not have a material impact on the Company's Consolidated Financial Statements or related

			disclosures upon adoption.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	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.	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 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.
ASU 2017-09, Stock Compensation (Topic 718):	This ASU amends ASC Topic 718, Stock Compensation, to provide guidance about which changes to the terms or conditions of a share-based	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

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.

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

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.

10

Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Not Yet Adopted			
ASU 2016-02, Leases (ASC Topic 842) and subsequent related ASUs	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. 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 - Apply a modified retrospective transition approach as of the date 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 its control environment. 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. 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

			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.
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. 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 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 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.

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.

(Dollars in millions)	Three Months Ended September 30		Nine Months Ended 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

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

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

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

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

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

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

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

[1] Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, Revenue Recognition, and have not been restated to conform with ASC Topic 606, Revenue from Contracts with Customers.
[2] Consumer total noninterest income and Wholesale total noninterest income exclude $123 million and $226 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes ($33) million of Corporate Other noninterest income that is not subject to ASC Topic 606.
[3] The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.
[4] Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

Notes to Consolidated Financial Statements (Unaudited), continued

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

[1] Amounts are presented in accordance with ASC Topic 606, Revenue from Contracts with Customers, except for out of scope amounts.
[2] Consumer total noninterest income and Wholesale total noninterest income exclude $313 million and $646 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes ($65) million of Corporate Other noninterest income that is not subject to ASC Topic 606.
[3] The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.
[4] Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

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

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

[1] Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, Revenue Recognition, and have not been restated to conform with ASC Topic 606, Revenue from Contracts with Customers.
[2] Consumer total noninterest income and Wholesale total noninterest income exclude $365 million and $660 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 18, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes ($76) million of Corporate Other noninterest income that is not subject to ASC Topic 606.
[3] The Company presents out of scope noninterest income for the purpose of reconciling noninterest income amounts within the scope of ASC Topic 606 to noninterest income amounts presented on the Company's Consolidated Statements of Income.
[4] Beginning July 1, 2018, the Company began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability.

Service Charges on Deposit Accounts

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

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

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

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 Continuous	Up to 30 days	30-90 days	Total	Overnight and Continuous	Up 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.

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

NOTE 4 - TRADING ASSETS AND LIABILITIES AND DERIVATIVE INSTRUMENTS

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

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

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

[2] Includes loans related to TRS.

Various trading and derivative instruments are used as part of the Company’s overall balance sheet management strategies and to support client requirements executed through the Bank and/or STRH, a broker/dealer subsidiary of the Company. The Company manages the potential market volatility associated with trading instruments by using appropriate risk management strategies. The size, volume, and nature of the trading products and derivative instruments can vary based on economic conditions as well as client-specific and Company-specific asset or liability positions.
Product offerings to clients include debt securities, loans traded in the secondary market, equity securities, derivative contracts, and other similar financial instruments. Other trading-

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

Notes to Consolidated Financial Statements (Unaudited), continued

Pledged trading assets are presented in the following table:

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

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

NOTE 5 – INVESTMENT SECURITIES

Investment Securities Portfolio Composition

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

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

[1] Beginning January 1, 2018, 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:

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

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

Investment securities pledged to secure public deposits, repurchase agreements, trusts, certain derivative agreements, and other funds had a fair value of $3.4 billion and $4.3 billion at September 30, 2018 and December 31, 2017, respectively.
The following table presents the amortized cost, fair value, and weighted average yield of the Company's investment

securities at September 30, 2018, by remaining contractual maturity, with the exception of MBS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

Investment Securities in an Unrealized Loss Position

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

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

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

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

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

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

	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.

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

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

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

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

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

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

expected cash flows are then discounted at the security’s initial effective interest rate to arrive at a present value amount. Credit losses on the OTTI security are recognized in earnings and reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security. Subsequent credit losses may be recorded on OTTI securities without a corresponding further decline in fair value when there has been a decline in expected cash flows. See Note 1, "Significant Accounting Policies," to the Company's 2017 Annual Report on Form 10-K for additional information regarding the Company's policy on securities AFS and related impairments.

During the three and nine months ended September 30, 2018 and 2017, there were no credit impairment losses recognized on securities AFS held at the end of each period. During the nine months ended September 30, 2018, the Company sold securities AFS that had accumulated OTTI credit losses of $23 million and recognized an associated gain on sale of $6 million in Net securities gains on the Consolidated Statements of Income. The accumulated balance of OTTI credit losses recognized in earnings on securities AFS held at period end was zero and $22 million at September 30, 2018 and 2017, respectively.

NOTE 6 - LOANS

Composition of Loan Portfolio

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

[1] Includes $3.8 billion and $3.7 billion of lease financing, and $838 million and $778 million of installment loans at September 30, 2018 and December 31, 2017, respectively.
[2] Includes $168 million and $196 million of LHFI measured at fair value at September 30, 2018 and December 31, 2017, respectively.
[3] Includes $1.8 billion and $1.6 billion of LHFS measured at fair value at September 30, 2018 and December 31, 2017, respectively.

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

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

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

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

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

Credit Quality Evaluation

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

process, and refreshed FICO scores are obtained by the Company at least quarterly.
For guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At both September 30, 2018 and December 31, 2017,

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

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

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

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

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

[1] Excludes $7.0 billion and $6.6 billion of guaranteed student loans and $452 million and $560 million of guaranteed residential mortgages at September 30, 2018 and December 31, 2017, respectively, for which there was nominal risk of principal loss due to the government guarantee.
[2] For substantially all loans with refreshed FICO scores below 620, the borrower’s FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.

24

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

[1] Includes nonaccruing LHFI past due 90 days or more of $348 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 $168 million of loans measured at fair value, the majority of which were accruing current.
[3] Guaranteed loans are not placed on nonaccruing regardless of delinquency status because collection of principal and interest is reasonably assured by the government.

	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.

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.

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

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

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

Company’s loan impairment policy.

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

NPAs are presented in the following table:

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

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

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

At September 30, 2018, OREO included $49 million of foreclosed residential real estate properties and $2 million of foreclosed commercial real estate properties, with the remaining $1 million related to land.
At December 31, 2017, OREO included $51 million of foreclosed residential real estate properties and $4 million of foreclosed commercial real estate properties, with the remaining $2 million related to land.

Restructured Loans

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

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

Concentrations of Credit Risk

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

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

Company's recorded investment in residential real estate secured LHFI totaled $38.6 billion and represented 27% of total LHFI. Additionally, at September 30, 2018 and December 31, 2017, the Company had commitments to extend credit on home equity lines of $10.2 billion and $10.1 billion, and had residential mortgage commitments outstanding of $3.8 billion and $3.0 billion, respectively. At both September 30, 2018 and December 31, 2017, 1% of the Company's 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 September 30, 2018			Nine Months Ended September 30, 2018		
(Dollars in millions)	Commercial	Consumer	Total	Commercial	Consumer	Total
ALLL, beginning of period	$1,068	$582	$1,650	$1,101	$634	$1,735
Provision for loan losses	36	25	61	37	91	128
Loan charge-offs	(51)	(71)	(122)	(95)	(234)	(329)
Loan recoveries	9	25	34	19	70	89
ALLL, end of period	1,062	561	1,623	1,062	561	1,623
Unfunded commitments reserve, beginning of period [1]	72	—	72	79	—	79
Benefit for unfunded commitments	—	—	—	(7)	—	(7)
Unfunded commitments reserve, end of period [1]	72	—	72	72	—	72
Allowance for credit losses, end of period	$1,134	$561	$1,695	$1,134	$561	$1,695

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

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

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

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

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

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

	September 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	$238	$28	$2,509	$164	$2,747	$192
Collectively evaluated	77,720	1,034	66,580	397	144,300	1,431
Total evaluated	77,958	1,062	69,089	561	147,047	1,623
LHFI measured at fair value	—	—	168	—	168	—
Total LHFI	$77,958	$1,062	$69,257	$561	$147,215	$1,623

	December 31, 2017					
	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, second, and third quarters of 2018, the Company performed qualitative goodwill assessments on its Consumer and Wholesale reporting units, considering changes in key assumptions as well as other events and circumstances occurring since the most recent annual goodwill impairment test performed as of October 1, 2017. The Company concluded, based on the totality of factors observed, that it is not more-likely-than-not

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

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

Consumer	Wholesale	Total

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

32

Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

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

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

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

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

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

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

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

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

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

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

Residential Mortgage Servicing Rights
Income earned by the Company on its residential 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 September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Income from residential MSRs [1]	$108	$100	$322	$301

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

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

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

33

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

The Company measures the fair value of its residential 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 annually, drawing upon various market and empirical data sources. Changes to valuation model inputs are reflected in the periods' results. See Note 16, “Fair Value Election and Measurement,” for further information regarding the Company's residential MSR valuation methodology.

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

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

Residential MSR uncertainties are hypothetical and should be used with caution. Changes in fair value based on variations in assumptions generally cannot be extrapolated because (i) the relationship of the change in an assumption to the change in fair value may not be linear and (ii) changes in one assumption may result in changes in another, which might magnify or counteract the uncertainties. The uncertainties do not reflect the effect of hedging activity undertaken by the Company to offset changes in the fair value of 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 September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
Income from commercial mortgage servicing rights [1]	$5	$6	$20	$17
Income from subservicing third party commercial mortgages [1]	3	3	9	11

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

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

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

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

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

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

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

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

NOTE 9 - OTHER ASSETS

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

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

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

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

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

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

Equity Securities Not Classified as Trading Assets or Liabilities

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

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

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

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

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

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

Lease Assets

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

Bank-Owned Life Insurance

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

Accrued Income

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

Accounts Receivable

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

Pension Assets

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

NOTE 10 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES
The Company has transferred loans and securities in sale or securitization transactions for which the Company retains certain beneficial interests, servicing rights, and/or recourse. These transfers of financial assets include certain residential mortgage loans, guaranteed student loans, and commercial loans, as discussed in the following section, "Transfers of Financial Assets." Cash receipts on beneficial interests held related to these transfers were immaterial for each of the three and nine months ended September 30, 2018 and 2017.
When a transfer or other transaction occurs with a VIE, the Company first determines whether it has a VI in the VIE. A VI is typically in the form of securities representing retained interests in transferred assets and, at times, servicing rights, and for commercial mortgage loans sold to Fannie Mae, the loss share guarantee. See Note 14, “Guarantees,” for further discussion of the Company's loss share guarantee. When determining whether to consolidate the VIE, the Company evaluates whether it is a primary beneficiary which has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE, and (ii) the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.
To determine whether a transfer should be accounted for as a sale or a secured borrowing, the Company evaluates whether: (i) the transferred assets are legally isolated, (ii) the transferee has the right to pledge or exchange the transferred assets, and (iii) the Company has relinquished effective control of the transferred assets. If all three conditions are met, then the transfer is accounted for as a sale.
Except as specifically noted herein, the Company is not required to provide additional financial support to any of the entities to which the Company has transferred financial assets, nor has the Company provided any support it was not otherwise obligated to provide. No events occurred during the nine months ended September 30, 2018 that changed the Company’s previous conclusions regarding whether it is the primary beneficiary of the VIEs described herein. Furthermore, no events occurred during the nine months ended September 30, 2018 that changed the Company’s sale conclusion with regards to previously transferred residential mortgage loans, guaranteed student loans, or commercial loans.
Transfers of Financial Assets
The following discussion summarizes transfers of financial assets to entities for which the Company has retained some level of continuing involvement.
Consumer Loans
Residential Mortgage Loans
The Company typically transfers first lien residential mortgage loans in conjunction with Ginnie Mae, Fannie Mae, and Freddie Mac securitization transactions, whereby the loans are exchanged for cash or securities that are readily redeemable for cash, and servicing rights are retained.
The Company sold residential mortgage loans to Ginnie Mae, Fannie Mae, and Freddie Mac, which resulted in pre-tax net gains of $46 million and $53 million for the three and nine

months ended September 30, 2018, and pre-tax net gains of $73 million and $152 million for the three and nine months ended September 30, 2017, respectively. Net gains/losses on the sale of residential mortgage LHFS are recorded at inception of the associated IRLCs and reflect the change in value of the loans resulting from changes in interest rates from the time the Company enters into the related IRLCs with borrowers until the loans are sold, but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 15, "Derivative Financial Instruments," for further discussion of the Company's hedging activities. The Company has made certain representations and warranties with respect to the transfer of these loans. See Note 14, “Guarantees,” for additional information regarding representations and warranties.
In a limited number of securitizations, the Company has received securities in addition to cash in exchange for the transferred loans, while also retaining servicing rights. The securities received are measured at fair value and classified as securities AFS. During the second quarter of 2018, the Company sold the majority of these securities for a net gain of $6 million, recognized in Net securities gains on the Consolidated Statements of Income for the nine months ended

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

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

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

Guaranteed Student Loans

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

Notes to Consolidated Financial Statements (Unaudited), continued

Balance Sheets reflected $171 million and $192 million of assets held by the securitization entity and $168 million and $189 million of debt issued by the entity, respectively, inclusive of related accrued interest.
To the extent that the securitization entity incurs losses on its assets, the securitization entity has recourse to the guarantor of the underlying loan, which is backed by the Department of Education up to a maximum guarantee of 98%, or in the event of death, disability, or bankruptcy, 100%. When not fully guaranteed, losses reduce the amount of available cash payable to the Company as the owner of the residual interest. To the extent that losses result from a breach of servicing responsibilities, the Company, which functions as the master servicer, may be required to repurchase the defaulted loan(s) at par value. If the breach was caused by the subservicer, the Company would seek reimbursement from the subservicer up to the guaranteed amount. The Company's maximum exposure to loss related to the securitization entity would arise from a breach of its servicing responsibilities. To date, loss claims filed with the guarantor that have been denied due to servicing errors have either been, or are in the process of being cured, or reimbursement has been

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

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

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

[1] Comprised of commercial mortgages sold through Fannie Mae, Freddie Mac, and Ginnie Mae securitizations, whereby servicing has been retained by the Company.
[2] Amounts associated with $429 million and $602 million of managed securitized loans at September 30, 2018 and December 31, 2017, respectively. Net charge-off data is not reported to the Company for the remaining balance of $138.3 billion and $133.6 billion of managed securitized loans at September 30, 2018 and December 31, 2017, respectively.
[3] Comprised of unsecuritized loans the Company originated and sold to private investors with servicing rights retained. Net charge-offs on these loans are not presented in the table as the data is not reported to the Company by the private investors that own these related loans.

Notes to Consolidated Financial Statements (Unaudited), continued

Other Variable Interest Entities

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

Tax Credit Investments

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

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

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

[2] At September 30, 2018 and December 31, 2017, the Company's maximum exposure to loss related to community development investments includes $484 million and $354 million of loans and $648 million and $627 million of unfunded equity commitments, respectively. At September 30, 2018 and December 31, 2017, the Company's maximum exposure to loss related to renewable energy partnerships includes $97 million and $0 of unfunded equity commitments, respectively.

Community Development Investments

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

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

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

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

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

Renewable Energy Partnerships

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

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

Total Return Swaps

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

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 11 – NET INCOME PER COMMON SHARE

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

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

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

NOTE 12 - INCOME TAXES

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

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

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

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

allowance was due primarily to the reversal of the valuation allowance that was recorded against certain of STM's pre-merger state NOL carryforwards that could not be carried forward by the Bank after the merger. The reversal of the valuation allowance was offset by the write-off of the related state NOL carryforwards. See Note 18, “Business Segment Reporting,” for additional information regarding the merger of STM and the Bank.
The provision for income taxes includes both federal and state income taxes and differs from the provision using statutory rates due primarily to favorable permanent tax items such as interest income from lending to tax-exempt entities, tax credits, and amortization expense related to qualified affordable housing investment costs. The Company calculated the provision for income taxes by applying the estimated annual effective tax rate to year-to-date pre-tax income and adjusting for discrete items that occurred during the period.

NOTE 13 - EMPLOYEE BENEFIT PLANS

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2018	2017	2018	2017
RSUs	$21	$14	$82	$64
Phantom stock units [1]	10	17	36	57
Total stock-based compensation expense	$31	$31	$118	$121
Stock-based compensation tax benefit [2]	$8	$12	$28	$46

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

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

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

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

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

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

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

NOTE 14 – GUARANTEES
The Company has undertaken certain guarantee obligations in the ordinary course of business. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform and make future payments should certain triggering events occur. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or through provision of the Company's services. The following is a discussion of the guarantees that the Company has issued at September 30, 2018. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivative instruments as discussed in Note 15, "Derivative Financial Instruments."

Letters of Credit
Letters of credit are conditional commitments issued by the Company, generally to guarantee the performance of a client to a third party in borrowing arrangements, such as CP, bond financing, or similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients but may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as financial standby, performance standby, or commercial letters of credit; however, commercial letters of credit are considered guarantees of funding and are not subject to the disclosure requirements of guarantee obligations.
At September 30, 2018 and December 31, 2017, the maximum potential exposure to loss related to the Company's issued letters of credit was $3.1 billion and $2.6 billion, respectively. The Company's outstanding letters of credit generally have a term of more than one year. Some standby letters of credit are designed to be drawn upon in the normal course of business and others are drawn upon only in circumstances of dispute or default in the underlying transaction to which the Company is not a party. In all cases, the Company is entitled to reimbursement from the client. If a letter of credit is drawn upon and reimbursement is not provided by the client, the Company may take possession of the collateral securing the letter of credit, where applicable.
The Company monitors its credit exposure under standby letters of credit in the same manner as it monitors other extensions of credit in accordance with its credit policies. Consistent with the methodologies used for all commercial borrowers, an internal assessment of the PD and loss severity in the event of default is performed. The Company's credit risk management for letters of credit leverages the risk rating process to focus greater visibility on higher risk and higher dollar letters of credit. The allowance associated with letters of credit is a component of the unfunded commitments reserve recorded in Other liabilities on the Consolidated Balance Sheets and is included in the allowance for credit losses as disclosed in Note 7, "Allowance for Credit Losses." Additionally, unearned fees relating to letters of credit are recorded in Other liabilities on the Consolidated Balance Sheets. The net carrying amount of unearned fees was immaterial at both September 30, 2018 and December 31, 2017.

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

modifications and foreclosures.
The following table summarizes the changes in the Company’s reserve for residential mortgage loan repurchases:

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

Commercial Mortgage Loan Loss Share Guarantee

In connection with the acquisition of Pillar, the Company assumed a loss share obligation associated with the terms of a master loss sharing agreement with Fannie Mae for multi-family commercial mortgage loans that were sold by Pillar to Fannie Mae under Fannie Mae’s delegated underwriting and servicing program. Upon the acquisition of Pillar, the Company entered into a lender contract amendment with Fannie Mae for multi-family commercial mortgage loans that Pillar sold to Fannie Mae prior to acquisition and that the Company sold to Fannie Mae subsequent to acquisition, whereby the Company bears a risk of loss of up to one-third of the incurred losses resulting from borrower defaults. The breach of any representation or warranty related to a loan sold to Fannie Mae could increase the Company's level of risk-sharing associated with the loan. The outstanding UPB of loans sold subject to the loss share guarantee was $3.4 billion at both September 30, 2018 and December 31, 2017. The maximum potential exposure to loss was $978 million and $962 million at September 30, 2018 and December 31, 2017, respectively. Using probability of default and severity of loss estimates, the Company's loss share liability was $12 million and $11 million at September 30, 2018 and December 31, 2017, respectively, and is recorded in Other liabilities on the Consolidated Balance Sheets.

Visa

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

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

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

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

NOTE 15 - DERIVATIVE FINANCIAL INSTRUMENTS

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

Credit and Market Risk Associated with Derivative Instruments

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

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

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

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

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

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

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

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

permitted to close out transactions with the Bank on a net basis, at amounts that would approximate the fair values of the derivatives, resulting in a single sum due by one party to the other. The counterparties would have the right to apply any collateral posted by the Bank against any net amount owed by the Bank. Additionally, certain of the Company's derivative liability positions, totaling $1.0 billion and $1.1 billion in fair value at September 30, 2018 and December 31, 2017, respectively, contain provisions conditioned on downgrades of the Bank's credit rating. These provisions, if triggered, would either give rise to an ATE that permits the counterparties to close-out net and apply collateral or, where a CSA is present, require the Bank to post additional collateral.
At September 30, 2018, the Bank held senior long-term debt credit ratings of Baal/A-/A- from Moody's, S&P, and Fitch, respectively. At September 30, 2018, ATEs have been triggered for less than $1 million in fair value liabilities. The maximum additional liability that could be triggered from ATEs was approximately $18 million at September 30, 2018. At September 30, 2018, $1.0 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $918 million in collateral, primarily in the form of cash.

Pursuant to the terms of the CSA, the Bank would be required to post additional collateral of approximately $2 million against these contracts if the Bank were downgraded to Baa2/BBB+. Further downgrades to Baa3/BBB and Ba1/BBB- would require the Bank to post an additional $3 million and $2 million of collateral, respectively. Any downgrades below Ba2/BB+ do not contain predetermined collateral posting levels.
Notional and Fair Value of Derivative Positions
The following table presents the Company's derivative positions at September 30, 2018 and December 31, 2017. The notional amounts in the table are presented on a gross basis at September 30, 2018 and December 31, 2017. Gross positive and gross negative fair value amounts associated with respective notional amounts are presented without consideration of any netting agreements, including collateral arrangements. Net fair value derivative amounts are adjusted on an aggregate basis, where applicable, to take into consideration the effects of legally enforceable master netting agreements, including any cash collateral received or paid, and are recognized in Trading assets and derivative instruments or Trading liabilities and derivative instruments on the Consolidated Balance Sheets.

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

[4] Notional amounts include $5.6 billion and $16.6 billion related to interest rate futures at September 30, 2018 and December 31, 2017, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.

[5] Notional amounts include $302 million and $190 million related to interest rate futures at September 30, 2018 and December 31, 2017, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table.

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

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

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

Netting of Derivative Instruments

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's securities borrowed or purchased under agreements to resell, and securities sold under agreements to repurchase, that are subject to enforceable master netting agreements or similar agreements, are discussed in Note 3, "Federal Funds Sold and Securities Financing Activities." The Company enters into ISDA or other legally enforceable industry standard master netting agreements with derivative counterparties. Under the terms of the master netting agreements, all transactions between the Company and the counterparty constitute a single business relationship such that in the event of default, the nondefaulting party is entitled to set off claims and apply property held by that party in respect of any transaction against obligations owed.

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

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

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

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

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

Fair Value and Cash Flow Hedging Instruments

Fair Value Hedging

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

Cash Flow Hedging

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

Gain/(loss) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	$—	$3	$—	$—	$3
Recognized on derivatives	—	—	—	(3)	(3)
Recognized on hedged items	—	—	—	3	3
Net income recognized on fair value hedges	$—	$3	$—	$—	$3
Gain on cash flow hedging relationships:					
Interest rate contracts:					
Amount of pre-tax gain reclassified from AOCI into income	$13 [2]	$—	$—	$—	$13
Net income recognized on cash flow hedges	$13	$—	$—	$—	$13
Nine Months Ended September 30, 2017					
Interest income/(expense), including the effects of fair value and cash flow hedges	$4,009	($216)	($286)	$148	$3,655
Gain/(loss) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	$—	$12	$—	$—	$12
Recognized on derivatives	—	—	—	5	5
Recognized on hedged items	—	—	—	(4)	(4)
Net income recognized on fair value hedges	$—	$12	$—	$1	$13
Gain on cash flow hedging relationships:					
Interest rate contracts:					
Amount of pre-tax gain reclassified from AOCI into income	$81 [2]	$—	$—	$—	$81
Net income recognized on cash flow hedges	$81	$—	$—	$—	$81

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

Economic Hedging Instruments and Trading Activities

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

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

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

- Residential MSRs. The Company hedges these instruments with a combination of interest rate derivatives, including forward and option contracts, futures, and forward rate agreements.
- Residential mortgage IRLCs and LHFS. The Company hedges these instruments using forward and option contracts, futures, and forward rate agreements.

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

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

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

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

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

Credit Derivative Instruments

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

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

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

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

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

NOTE 16 - FAIR VALUE ELECTION AND MEASUREMENT

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

- Level 1: Quoted prices for identical instruments in active markets
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

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

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

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

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

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

The Company classifies instruments within level 2 in the fair value hierarchy when it determines that external pricing sources estimated fair value using prices for similar instruments trading in active markets. A wide range of quoted values from pricing sources may imply a reduced level of market activity and indicate that significant adjustments to

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

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

Recurring Fair Value Measurements

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

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