SUNTRUST BANKS INC
Form 10-Q
November 04, 2016

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, 2016

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨

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 27, 2016, 490,797,754 shares of the registrant’s common stock, $1.00 par value, were outstanding.

TABLE OF CONTENTS

GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
AIP — Annual Incentive Plan.
ALCO — Asset/Liability Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
APIC — Additional paid-in capital.
ASC — Accounting Standards Codification.
ASU — Accounting Standards Update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
bps — Basis points.
BRC — Board Risk Committee.
CCAR — Comprehensive Capital Analysis and Review.
CCB — Capital conservation buffer.
CD — Certificate of deposit.
CDR — Conditional default rate.
CDS — Credit default swaps.
CECL — Current expected credit loss.
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.
CLO — Collateralized loan obligation.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPR — Conditional prepayment rate.
CRE — Commercial real estate.
CRO — Chief Risk Officer.
CSA — Credit support annex.
CVA — Credit valuation adjustment.
DDA — Demand deposit account.
DOJ — Department of Justice.
DTA — Deferred tax asset.
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.
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 — Federal Reserve Board.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GenSpring — GenSpring Family Offices, LLC.
Ginnie Mae — Government National Mortgage Association.
GSE — Government-sponsored enterprise.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFS — Loans held for sale.
LIBOR — London InterBank Offered Rate.
LOCOM — Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MasterCard — MasterCard International.
MBS — Mortgage-backed securities.
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operation.
Moody's — Moody's Investors Service.
MRA — Master Repurchase Agreement.
MRM — Market Risk Management.
MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
Parent Company — SunTrust Banks, Inc. (the parent Company of SunTrust Bank and other subsidiaries).
PD — Probability of default.
Pillar — Pillar Financial, LLC.
PWM — Private Wealth Management.
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.
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 United States.
U.S. Treasury — The United States Department of the Treasury.
UPB — Unpaid principal balance.
VA —Veterans Administration.

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, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

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

(Dollars in millions and shares in thousands, except per share data) (Unaudited)	Three Months Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Interest Income				
Interest and fees on loans	$1,245	$1,139	$3,670	$3,345
Interest and fees on loans held for sale	25	20	62	66
Interest and dividends on securities available for sale	159	153	483	430
Trading account interest and other	22	21	70	61
Total interest income	1,451	1,333	4,285	3,902
Interest Expense				
Interest on deposits	67	54	188	165
Interest on long-term debt	68	60	191	196
Interest on other borrowings	8	8	29	23
Total interest expense	143	122	408	384
Net interest income	1,308	1,211	3,877	3,518
Provision for credit losses	97	32	343	114
Net interest income after provision for credit losses	1,211	1,179	3,534	3,404
Noninterest Income				
Service charges on deposit accounts	162	159	477	466
Other charges and fees	93	97	290	285
Card fees	83	83	243	247
Investment banking income	147	115	372	357
Trading income	65	31	154	140
Mortgage production related income	118	58	288	217
Mortgage servicing related income	49	40	164	113
Trust and investment management income	80	86	230	255
Retail investment services	71	77	212	229
Gain on sale of premises	—	—	52	—
Net securities gains	—	7	4	21
Other noninterest income	21	58	83	173
Total noninterest income	889	811	2,569	2,503
Noninterest Expense				
Employee compensation	687	641	1,994	1,926
Employee benefits	86	84	315	326
Outside processing and software	225	200	626	593
Net occupancy expense	93	86	256	255
Equipment expense	44	41	126	123
Marketing and customer development	38	42	120	104
Regulatory assessments	47	32	127	104
Operating losses	35	3	85	33
Credit and collection services	17	8	47	52
Amortization	14	9	35	22
Other noninterest expense	123	118	341	334
Total noninterest expense	1,409	1,264	4,072	3,872

Income before provision for income taxes	691	726	2,031	2,035
Provision for income taxes	215	187	611	579
Net income including income attributable to noncontrolling interest	476	539	1,420	1,456
Net income attributable to noncontrolling interest	2	2	7	7
Net income	$474	$537	$1,413	$1,449
Net income available to common shareholders	$457	$519	$1,363	$1,396
Net income per average common share:				
Diluted	$0.91	$1.00	$2.70	$2.67
Basic	0.92	1.01	2.72	2.70
Dividends declared per common share	0.26	0.24	0.74	0.68
Average common shares - diluted	500,885	518,677	505,619	522,634
Average common shares - basic	496,304	513,010	501,036	516,970

See accompanying Notes to Consolidated Financial Statements (unaudited).

2

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2016	2015	2016	2015
Net income	$474	$537	$1,413	$1,449
Components of other comprehensive (loss)/income:				
Change in net unrealized (losses)/gains on securities available for sale, net of tax of ($19), $70, $228, and $6, respectively	(32)	119	383	4
Change in net unrealized (losses)/gains on derivative instruments, net of tax of ($51), $50, $81, and $57, respectively	(86)	84	137	94
Change in credit risk adjustment on long-term debt, net of tax of ($2), $0, ($3), and $0, respectively [1]	(3)	—	(5)	—
Change related to employee benefit plans, net of tax of $2, $1, $39, and ($44), respectively	3	3	65	(64)
Total other comprehensive (loss)/income, net of tax	(118)	206	580	34
Total comprehensive income	$356	$743	$1,993	$1,483

[1] Related to the Company's early adoption of the ASU 2016-01 provision related to changes in instrument-specific credit risk. See Note 1, "Significant Accounting Policies," and Note 17, "Accumulated Other Comprehensive Income/(Loss)," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

3

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands, except per share data)	September 30, 2016	December 31, 2015
Assets	(Unaudited)	
Cash and due from banks	$8,019	$4,299
Federal funds sold and securities borrowed or purchased under agreements to resell	1,697	1,277
Interest-bearing deposits in other banks	24	23
Cash and cash equivalents	9,740	5,599
Trading assets and derivative instruments [1]	7,044	6,119
Securities available for sale	29,672	27,825
Loans held for sale ($3,026 and $1,494 at fair value at September 30, 2016 and December 31, 2015, respectively)	3,772	1,838
Loans [2] ($234 and $257 at fair value at September 30, 2016 and December 31, 2015, respectively)	141,532	136,442
Allowance for loan and lease losses	(1,743)	(1,752)
Net loans	139,789	134,690
Premises and equipment, net	1,510	1,502
Goodwill	6,337	6,337
Other intangible assets (MSRs at fair value: $1,119 and $1,307 at September 30, 2016 and December 31, 2015, respectively)	1,131	1,325
Other assets	6,096	5,582
Total assets	$205,091	$190,817
Liabilities		
Noninterest-bearing deposits	$43,835	$42,272
Interest-bearing deposits (CDs at fair value: $54 and $0 at September 30, 2016 and December 31, 2015, respectively)	115,007	107,558
Total deposits	158,842	149,830
Funds purchased	2,226	1,949
Securities sold under agreements to repurchase	1,724	1,654
Other short-term borrowings	949	1,024
Long-term debt [3] ($963 and $973 at fair value at September 30, 2016 and December 31, 2015, respectively)	11,866	8,462
Trading liabilities and derivative instruments	1,484	1,263
Other liabilities	3,551	3,198
Total liabilities	180,642	167,380
Shareholders' Equity		
Preferred stock, no par value	1,225	1,225
Common stock, $1.00 par value	550	550
Additional paid-in capital	9,009	9,094
Retained earnings	15,681	14,686
Treasury stock, at cost, and other [4]	(2,131)	(1,658)
Accumulated other comprehensive income/(loss), net of tax	115	(460)
Total shareholders' equity	24,449	23,437
Total liabilities and shareholders' equity	$205,091	$190,817
Common shares outstanding [5]	495,936	508,712
Common shares authorized	750,000	750,000

Preferred shares outstanding	12	12
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	53,985	41,209
[1] Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	$1,495	$1,377
[2] Includes loans of consolidated VIEs	219	246
[3] Includes debt of consolidated VIEs	230	259
[4] Includes noncontrolling interest	101	108
[5] Includes restricted shares	21	1,334

See accompanying Notes to Consolidated Financial Statements (unaudited).

4

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock and Other [1]	Accumulated Other Comprehensive (Loss)/Income	Total
Balance, January 1, 2015	$1,225	525	$550	$9,089	$13,295	($1,032)	($122)	$23,005
Net income	—	—	—	—	1,449	—	—	1,449
Other comprehensive income	—	—	—	—	—	—	34	34
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, $0.68 per share	—	—	—	—	(352)	—	—	(352)
Preferred stock dividends [2]	—	—	—	—	(48)	—	—	(48)
Repurchase of common stock	—	(11)	—	—	—	(465)	—	(465)
Exercise of stock options and stock compensation expense	—	—	—	(16)	—	25	—	9
Restricted stock activity	—	—	—	14	(3)	7	—	18
Amortization of restricted stock compensation	—	—	—	—	—	13	—	13
Issuance of stock for employee benefit plans and other	—	—	—	—	—	3	—	3
Balance, September 30, 2015	$1,225	514	$550	$9,087	$14,341	($1,451)	($88)	$23,664
Balance, January 1, 2016	$1,225	509	$550	$9,094	$14,686	($1,658)	($460)	$23,437
Cumulative effect of credit risk adjustment [3]	—	—	—	—	5	—	(5)	—
Net income	—	—	—	—	1,413	—	—	1,413
Other comprehensive income	—	—	—	—	—	—	580	580
Change in noncontrolling interest	—	—	—	—	—	(7)	—	(7)
Common stock dividends, $0.74 per share	—	—	—	—	(370)	—	—	(370)
Preferred stock dividends [2]	—	—	—	—	(49)	—	—	(49)
Repurchase of common stock	—	(15)	—	—	—	(566)	—	(566)
Repurchase of common stock warrants	—	—	—	(24)	—	—	—	(24)
Exercise of stock options and stock compensation expense [4]	—	1	—	(28)	—	43	—	15
Restricted stock activity [4]	—	1	—	(33)	(4)	55	—	18
Amortization of restricted stock compensation	—	—	—	—	—	2	—	2
Balance, September 30, 2016	$1,225	496	$550	$9,009	$15,681	($2,131)	$115	$24,449

[1] At September 30, 2016, includes ($2,232) million for treasury stock, $0 million for the compensation element of restricted stock, and $101 million for noncontrolling interest.
At September 30, 2015, includes ($1,550) million for treasury stock, ($7) million for the compensation element of restricted stock, and $106 million for noncontrolling interest.
[2] For the nine months ended September 30, 2016, dividends were $3,056 per share for both Perpetual Preferred Stock Series A and B, $4,406 per share for Perpetual Preferred Stock Series E, and $4,219 per share for Perpetual Preferred Stock Series F.
For the nine months ended September 30, 2015, dividends were $3,044 per share for both Perpetual Preferred Stock Series A and B, $4,406 per share for Perpetual Preferred Stock Series E, and $4,813 per share for Perpetual Preferred

Stock Series F.
[3] Related to the Company's early adoption of the ASU 2016-01 provision related to changes in instrument-specific credit risk, beginning January 1, 2016. See Note 1, "Significant Accounting Policies," and Note 17, "Accumulated Other Comprehensive Income/(Loss)," for additional information.
[4] Includes a ($4) million net reclassification of excess tax benefits from additional paid-in capital to provision for income taxes, related to the Company's early adoption of ASU 2016-09. See Note 1, "Significant Accounting Policies," and Note 11, "Employee Benefit Plans," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

(Dollars in millions) (Unaudited)	Nine Months Ended September 30 2016	2015
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	$1,420	$1,456
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation, amortization, and accretion	533	596
Origination of mortgage servicing rights	(198)	(185)
Provisions for credit losses and foreclosed property	347	122
Stock-based compensation	85	65
Net securities gains	(4)	(21)
Net gain on sale of loans held for sale, loans, and other assets	(376)	(249)
Net (increase)/decrease in loans held for sale	(1,647)	644
Net increase in trading assets	(704)	(183)
Net increase in other assets [1]	(193)	(26)
Net increase/(decrease) in other liabilities [1]	155	(164)
Net cash (used in)/provided by operating activities	(582)	2,055
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	3,763	4,621
Proceeds from sales of securities available for sale	197	2,708
Purchases of securities available for sale	(5,297)	(7,861)
Net increase in loans, including purchases of loans	(7,007)	(2,097)
Proceeds from sales of loans	1,482	2,048
Purchases of mortgage servicing rights	(101)	(113)
Capital expenditures	(188)	(74)
Payments related to acquisitions, including contingent consideration	(23)	(30)
Proceeds from the sale of other real estate owned and other assets	171	179
Net cash used in investing activities	(7,003)	(619)
Cash Flows from Financing Activities		
Net increase in total deposits	9,012	5,804
Net increase/(decrease) in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	272	(5,244)
Proceeds from issuance of long-term debt and other	4,924	1,237
Repayments of long-term debt	(1,448)	(5,670)
Repurchase of common stock	(566)	(465)
Repurchase of common stock warrants	(24)	—
Common and preferred dividends paid	(412)	(393)
Taxes paid related to net share settlement of equity awards [1]	(47)	(32)
Proceeds from exercise of stock options [1]	15	14
Net cash provided by/(used in) financing activities	11,726	(4,749)
Net increase/(decrease) in cash and cash equivalents	4,141	(3,313)
Cash and cash equivalents at beginning of period	5,599	8,229
Cash and cash equivalents at end of period	$9,740	$4,916

Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$23	$726
Loans transferred from loans to loans held for sale	315	1,734
Loans transferred from loans and loans held for sale to other real estate owned	46	52
Non-cash impact of debt assumed by purchaser in lease sale	74	129

[1] Related to the Company's early adoption of ASU 2016-09, certain prior period amounts have been retrospectively reclassified between operating activities and financing 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 have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete, consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which 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 those estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

These interim Consolidated Financial Statements should be read in conjunction with the Company’s 2015 Annual Report on Form 10-K. There have been no significant changes to the

Company’s accounting policies as disclosed in the 2015 Annual Report on Form 10-K.

The Company evaluated events that occurred subsequent to September 30, 2016, and there were no material events that would require recognition in the Company's Consolidated Financial Statements or disclosure in the accompanying Notes for the three and nine months ended September 30, 2016, except as follows:

In October of 2016, the Company announced that it signed a definitive agreement to acquire substantially all of the assets of the operating subsidiaries of Pillar Financial, LLC. Pillar is a multi-family agency lending and servicing company with an originate-to-distribute focus that holds licenses with Fannie Mae, Freddie Mac, and the FHA. This acquisition is expected to close in late 2016 or early 2017, subject to certain agency approvals and other closing conditions, and will be part of the Company's Wholesale Banking business segment.

Recently Issued Accounting Pronouncements

The following table summarizes ASUs recently issued by the Financial Accounting Standards Board ("FASB") that could have a material effect on the Company's financial statements:

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Adopted (or partially adopted) in 2016			
ASU 2015-02, Amendments to the Consolidation Analysis	The ASU rescinds the indefinite deferral of previous amendments to ASC Topic 810, Consolidation, for certain entities and amends components of the consolidation analysis under ASC Topic 810, including evaluating limited partnerships and similar legal entities, evaluating fees paid to a decision maker or service provider as a variable interest, the effects of fee arrangements and/or related parties on the primary beneficiary determination and investment fund specific matters. The ASU may be adopted either retrospectively or on a modified retrospective basis.	January 1, 2016	The Company adopted this ASU on a modified retrospective basis beginning January 1, 2016. The adoption of this standard had no impact to the Consolidated Financial Statements.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	The ASU amends ASC Topic 825, Financial Instruments-Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practicability exception, 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 that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.	January 1, 2018 Early adoption is permitted beginning January 1, 2016 or 2017 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. The Company is evaluating the impact of the remaining provisions of this ASU on the Consolidated Financial Statements and related disclosures; however, the impact is not expected to be material.

7

Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	The ASU amends ASC Topic 718, Compensation-Stock Compensation, which simplifies several aspects of the accounting for employee share-based payments transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Adoption methods are specific to the component of the ASU, ranging from a retrospective and modified retrospective basis to a prospective basis.	January 1, 2017 Early adoption is permitted.	The Company early adopted the ASU on April 1, 2016 with an effective date of January 1, 2016, which resulted in a reclassification of $4 million from APIC to provision for income taxes, representing excess tax benefits previously recognized in APIC, during the first quarter of 2016. For the second and third quarters of 2016, the Company recognized excess tax benefits of $6 million and $1 million, respectively, in the provision for income taxes. The early adoption favorably impacted both basic and diluted EPS by $0.02 per share for the nine months ended September 30, 2016. The effect of the retrospective change in presentation in the Consolidated Statements of Cash Flows related to excess tax benefits for the nine months ended September 30, 2015 (comparative prior year period) was a reclassification of $18 million of excess tax benefits from financing activities to operating activities and a reclassification of $32 million of taxes paid related to net share settlement of equity awards from operating activities to financing activities. The net impact on the Consolidated Statements of Cash Flows was immaterial. The Company had no previously unrecognized excess tax benefits; therefore, there was no impact to the Consolidated Financial Statements as it related to the elimination of the requirement that excess tax benefits be realized before recognition. The Company elected to retain its existing accounting policy election to

			estimate award forfeitures.
Standards Not Yet Adopted			
ASU 2014-09, Revenue from Contracts with Customers ASU 2015-14, Deferral of the Effective Date ASU 2016-08, Principal versus Agent Considerations ASU 2016-10, Identifying Performance Obligations and Licensing ASU 2016-12, Narrow-Scope Improvements and Practical Expedients	These ASUs supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the 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. The ASUs may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts, with remaining performance obligations as of the effective date.	January 1, 2018 Early adoption is permitted beginning January 1, 2017.	The Company is evaluating the alternative methods of adoption and the anticipated effects on the Consolidated Financial Statements and related disclosures. The Company does not plan to early adopt the standard.
ASU 2016-02, Leases	The ASU creates ASC Topic 842, Leases, and supersedes Topic 840, Leases. 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 Topic 606, Revenue from Contracts with Customers. There are several new qualitative and quantitative disclosures required. Upon transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.	January 1, 2019 Early adoption is permitted.	The adoption of this ASU will result in an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. The Company is evaluating the other effects of adoption on the Consolidated Financial Statements and related disclosures.

Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting	The ASU amends ASC Topic 323, Investments-Equity Method and Joint Ventures, to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investor obtains significant influence over the investee. In addition, if the investor previously held an AFS equity security, the ASU requires that the investor recognize through earnings the unrealized holding gain or loss in AOCI, as of the date it obtains significant influence. The ASU is to be applied on a prospective basis.	January 1, 2017 Early application is permitted.	This ASU will not impact the Consolidated Financial Statements and related disclosures until there is an applicable increase in investment or change in influence resulting in a transition to the equity method.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The ASU amends 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 reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption. The CECL 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 is evaluating the impact the ASU will have on the Company's Consolidated Financial Statements and related disclosures.

NOTE 2 - 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, 2016	December 31, 2015
Fed funds sold	$31	$38
Securities borrowed	267	277
Securities purchased under agreements to resell	1,399	962
Total Fed funds sold and securities borrowed or purchased under agreements to resell	$1,697	$1,277

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. 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, 2016 and December 31, 2015, the total market value of collateral held was $1.7 billion and $1.2 billion, of which $227 million and $73 million was repledged, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

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, 2016				December 31, 2015		
	Overnight and Continuous	Up to 30 days	30-90 days	Total	Overnight and Continuous	Up to 30 days	Total
U.S. Treasury securities	$27	$—	$—	$27	$112	$—	$112
Federal agency securities	112	15	—	127	319	—	319
MBS - agency	1,026	64	—	1,090	837	23	860
CP	19	—	—	19	49	—	49
Corporate and other debt securities	351	60	50	461	242	72	314
Total securities sold under agreements to repurchase	$1,535	$139	$50	$1,724	$1,559	$95	$1,654

For these 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 13, "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. At September 30, 2016 and December 31, 2015, there were no such transactions subject to legally enforceable MRAs that were eligible for balance sheet netting.

Financial instrument collateral received or pledged related to exposures subject to legally enforceable MRAs are not netted on the Consolidated Balance Sheets, but are presented in the following table as a reduction to the net amount reflected on the Consolidated Balance Sheets to derive the held/pledged financial instruments. The collateral amounts held/pledged are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, 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, 2016						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,666	$—	$1,666	[1]	$1,652	$14
Financial liabilities:						
Securities sold under agreements to repurchase	1,724	—	1,724		1,724	—
December 31, 2015						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,239	$—	$1,239	[1]	$1,229	$10

Financial liabilities:					
Securities sold under agreements to repurchase	1,654	—	1,654	1,654	—

[1] Excludes $31 million and $38 million of Fed funds sold, which are not subject to a master netting agreement at September 30, 2016 and December 31, 2015, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 3 - 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, 2016	December 31, 2015
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	$547	$538
Federal agency securities	259	588
U.S. states and political subdivisions	187	30
MBS - agency	883	553
CLO securities	1	2
Corporate and other debt securities	723	468
CP	202	67
Equity securities	51	66
Derivative instruments [1]	1,531	1,152
Trading loans [2]	2,660	2,655
Total trading assets and derivative instruments	$7,044	$6,119
Trading Liabilities and Derivative Instruments:		
U.S. Treasury securities	$918	$503
MBS - agency	2	37
Corporate and other debt securities	252	259
Derivative instruments [1]	312	464
Total trading liabilities and derivative instruments	$1,484	$1,263

[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, the Company's broker/dealer subsidiary. The Company manages the potential market volatility associated with trading instruments with 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 13, “Derivative Financial Instruments,” and the “Trading Assets and Derivative Instruments and Securities Available for Sale” section of Note 14, “Fair Value Election and Measurement.”

Pledged trading assets are presented in the following table:

(Dollars in millions)	September 30, 2016	December 31, 2015
Pledged trading assets to secure repurchase agreements [1]	$1,037	$986
Pledged trading assets to secure derivative agreements	465	393
Pledged trading assets to secure other arrangements	40	40

[1] Repurchase agreements secured by collateral totaled $999 million and $950 million at September 30, 2016 and December 31, 2015, respectively.

11

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

	September 30, 2016			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$4,850	$135	$2	$4,983
Federal agency securities	324	10	—	334
U.S. states and political subdivisions	250	11	—	261
MBS - agency	22,606	714	4	23,316
MBS - non-agency residential	75	1	—	76
ABS	9	2	—	11
Corporate and other debt securities	35	1	—	36
Other equity securities [1]	655	1	1	655
Total securities AFS	$28,804	$875	$7	$29,672

	December 31, 2015			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$3,460	$3	$14	$3,449
Federal agency securities	402	10	1	411
U.S. states and political subdivisions	156	8	—	164
MBS - agency	22,877	397	150	23,124
MBS - non-agency residential	92	2	—	94
ABS	11	2	1	12
Corporate and other debt securities	37	1	—	38
Other equity securities [1]	533	1	1	533
Total securities AFS	$27,568	$424	$167	$27,825

[1] At September 30, 2016, the fair value of other equity securities was comprised of the following: $143 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, $104 million of mutual fund investments, and $6 million of other.
At December 31, 2015, the fair value of other equity securities was comprised of the following: $32 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, $93 million of mutual fund investments, and $6 million of other.

The following table presents interest and dividends on securities AFS:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2016	2015	2016	2015
Taxable interest	$154	$143	$470	$397
Tax-exempt interest	2	2	4	5
Dividends	3	8	9	28
Total interest and dividends on securities AFS	$159	$153	$483	$430

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $3.5 billion and $3.2 billion at September 30, 2016 and December 31, 2015, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

The following table presents the amortized cost, fair value, and weighted average yield of investments in debt securities AFS at September 30, 2016, by remaining contractual maturity, with the exception of MBS and ABS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Distribution of Remaining Maturities				
(Dollars in millions)	Due in 1 Year or Less	Due After 1 Year through 5 Years	Due After 5 Years through 10 Years	Due After 10 Years	Total
Amortized Cost:					
U.S. Treasury securities	$—	$1,847	$3,003	$—	$4,850
Federal agency securities	118	92	7	107	324
U.S. states and political subdivisions	20	21	125	84	250
MBS - agency	2,024	13,277	7,104	201	22,606
MBS - non-agency residential	—	75	—	—	75
ABS	7	1	1	—	9
Corporate and other debt securities	—	35	—	—	35
Total debt securities AFS	$2,169	$15,348	$10,240	$392	$28,149
Fair Value:					
U.S. Treasury securities	$—	$1,874	$3,109	$—	$4,983
Federal agency securities	118	98	8	110	334
U.S. states and political subdivisions	20	23	133	85	261
MBS - agency	2,129	13,719	7,259	209	23,316
MBS - non-agency residential	—	76	—	—	76
ABS	7	3	1	—	11
Corporate and other debt securities	—	36	—	—	36
Total debt securities AFS	$2,274	$15,829	$10,510	$404	$29,017
Weighted average yield [1]	2.75 %	2.38 %	2.42 %	3.17 %	2.44 %

[1] Weighted average yields are based on amortized cost.

Securities AFS in an Unrealized Loss Position

The Company held certain investment securities AFS where amortized cost exceeded fair value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market prices of securities fluctuate. At September 30, 2016, 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," of the Company's 2015 Annual Report on Form 10-K.

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

	September 30, 2016					
	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	$350	$2	$—	$—	$350	$2
Federal agency securities	15	—	3	—	18	—
U.S. states and political subdivisions	52	—	—	—	52	—
MBS - agency	611	1	513	3	1,124	4
ABS	—	—	6	—	6	—
Other equity securities	—	—	4	1	4	1
Total temporarily impaired securities AFS	1,028	3	526	4	1,554	7
OTTI securities AFS [1]:						
MBS - non-agency residential	17	—	—	—	17	—
ABS	1	—	—	—	1	—
Total OTTI securities AFS	18	—	—	—	18	—
Total impaired securities AFS	$1,046	$3	$526	$4	$1,572	$7

13

Notes to Consolidated Financial Statements (Unaudited), continued

	December 31, 2015					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses [2]	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses [2]
Temporarily impaired securities AFS:						
U.S. Treasury securities	$2,169	$14	$—	$—	$2,169	$14
Federal agency securities	75	—	34	1	109	1
MBS - agency	11,434	114	958	36	12,392	150
ABS	—	—	7	1	7	1
Other equity securities	3	1	—	—	3	1
Total temporarily impaired securities AFS	13,681	129	999	38	14,680	167
OTTI securities AFS [1]:						
ABS	1	—	—	—	1	—
Total OTTI securities AFS	1	—	—	—	1	—
Total impaired securities AFS	$13,682	$129	$999	$38	$14,681	$167

[1] OTTI securities AFS are impaired securities for which OTTI credit losses have been previously recognized in earnings.
[2] Unrealized losses less than $0.5 million are presented as zero within the table.

At September 30, 2016, temporarily impaired securities AFS that have been in an unrealized loss position for twelve months or longer included agency MBS, federal agency securities, one ABS collateralized by 2004 vintage home equity loans, and one equity security. The temporarily impaired ABS continues to receive timely principal and interest payments, and is evaluated quarterly for credit impairment. Unrealized losses on securities AFS that relate to factors other than credit are recorded in AOCI, net of tax.

Realized Gains and Losses and Other-Than-Temporarily Impaired Securities AFS
Net securities gains/(losses) are comprised of gross realized gains, gross realized losses, and OTTI credit losses recognized in earnings. For the three months ended September 30, 2016, no gross realized gains were recognized. For the nine months ended September 30, 2016, gross realized gains were $4 million. For both the three and nine months ended September 30, 2016, gross realized losses were immaterial and there were no OTTI credit losses recognized in earnings. For the three and nine months ended September 30, 2015, gross realized gains were $11 million and $25 million, respectively. Gross realized losses of $3 million were recognized for both the three and nine months ended September 30, 2015, and OTTI losses recognized in earnings were immaterial for both periods.
Securities AFS in an unrealized loss position are evaluated quarterly for other-than-temporary credit impairment, which is determined using cash flow analyses that take into account security specific collateral and transaction structure. Future expected credit losses are determined using various assumptions, the most significant of which include default rates, prepayment

rates, and loss severities. If, based on this analysis, a security is in an unrealized loss position and the Company does not expect to recover the entire amortized cost basis of the security, the expected cash flows are then discounted at the security's initial effective interest rate to arrive at a present value amount. Credit losses on the OTTI security are recognized in earnings and reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security. See Note 1, "Significant Accounting Policies," in the Company's 2015 Annual Report on Form 10-K for additional information regarding the Company's policy on securities AFS and related impairments.

The Company continues to reduce existing exposure on OTTI securities primarily through paydowns. In certain instances, the amount of credit losses recognized in earnings on a debt security exceeds the total unrealized losses on the security, which may result in unrealized gains relating to factors other than credit recorded in AOCI, net of tax. During the three and nine months ended September 30, 2016, there were no credit impairment losses recognized on securities AFS held at the end of the period. During the three and nine months ended September 30, 2015, credit impairment recognized on securities AFS still held at the end of the period was immaterial, all of which related to one private MBS with a fair value of approximately $22 million at September 30, 2015. The accumulated balance of OTTI credit losses recognized in earnings on securities AFS held at period end was $24 million at September 30, 2016 and $25 million at September 30, 2015. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value when there has been a decline in expected cash flows.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 5 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	September 30, 2016	December 31, 2015
Commercial loans:		
C&I	$68,298	$67,062
CRE	5,056	6,236
Commercial construction	3,875	1,954
Total commercial loans	77,229	75,252
Residential loans:		
Residential mortgages - guaranteed	521	629
Residential mortgages - nonguaranteed [1]	26,306	24,744
Residential home equity products	12,178	13,171
Residential construction	393	384
Total residential loans	39,398	38,928
Consumer loans:		
Guaranteed student	5,844	4,922
Other direct	7,358	6,127
Indirect	10,434	10,127
Credit cards	1,269	1,086
Total consumer loans	24,905	22,262
LHFI	$141,532	$136,442
LHFS [2]	$3,772	$1,838

[1] Includes $234 million and $257 million of LHFI measured at fair value at September 30, 2016 and December 31, 2015, respectively.

[2] Includes $3.0 billion and $1.5 billion of LHFS measured at fair value at September 30, 2016 and December 31, 2015, respectively.

During the three months ended September 30, 2016 and 2015, the Company transferred $153 million and $38 million in LHFI to LHFS, and $13 million and $75 million in LHFS to LHFI, respectively. In addition to sales of mortgage LHFS in the normal course of business, the Company sold $1.2 billion and $178 million in loans and leases for net gains of $8 million and $9 million during the three months ended September 30, 2016 and 2015, respectively.

During the nine months ended September 30, 2016 and 2015, the Company transferred $315 million and $1.7 billion in LHFI to LHFS, and $23 million and $726 million in LHFS to LHFI, respectively. In addition to sales of mortgage LHFS in the normal course of business, the Company sold $1.5 billion and $2.0 billion in loans and leases for net gains of $6 million and $22 million during the nine months ended September 30, 2016 and 2015, respectively.

At both September 30, 2016 and December 31, 2015, the Company had $23.6 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support $17.1 billion and $17.2 billion of available, unused borrowing capacity, respectively.

At September 30, 2016 and December 31, 2015, the Company had $36.1 billion and $33.7 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support $31.1 billion and $28.5 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at September 30, 2016 was used to support $3.0 billion of long-term debt and $4.4 billion of letters of credit issued on the Company's behalf. At

December 31, 2015, the available FHLB borrowing capacity was used to support $408 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 PD and LGD 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), Adversely Classified, 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 Adversely Classified) and Criticized Nonaccruing (which includes a portion of Adversely Classified and 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. The increase in Criticized accruing and nonaccruing C&I loans at September 30, 2016 compared to December 31, 2015, as presented in the following risk rating table, was driven primarily by downgrades of loans in the energy industry vertical.

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and FICO scores. The Company believes that consumer credit risk, as assessed by the industry-wide FICO scoring method, is a relevant credit quality indicator. Borrower-specific FICO scores are obtained at origination as part of the Company’s formal underwriting process, and refreshed FICO scores are obtained by the Company at least quarterly. For government-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 September 30, 2016 and December 31, 2015, 28% and 31%, respectively, of the guaranteed residential loan

Notes to Consolidated Financial Statements (Unaudited), continued

portfolio was current with respect to payments. At September 30, 2016 and December 31, 2015, 77% and 78%, respectively, of the guaranteed student loan portfolio was current with respect

to payments. The Company's loss exposure on guaranteed residential 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, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Risk rating:						
Pass	$65,800	$65,379	$4,688	$6,067	$3,749	$1,931
Criticized accruing	1,997	1,375	358	158	124	23
Criticized nonaccruing	501	308	10	11	2	—
Total	$68,298	$67,062	$5,056	$6,236	$3,875	$1,954

	Residential Loans [1]					
	Residential Mortgages - Nonguaranteed		Residential Home Equity Products		Residential Construction	
(Dollars in millions)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current FICO score range:						
700 and above	$22,342	$20,422	$10,016	$10,772	$331	$313
620 - 699	3,037	3,262	1,590	1,741	51	58
Below 620 [2]	927	1,060	572	658	11	13
Total	$26,306	$24,744	$12,178	$13,171	$393	$384

	Consumer Loans [3]					
	Other Direct		Indirect		Credit Cards	
(Dollars in millions)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Current FICO score range:						
700 and above	$6,649	$5,501	$7,377	$7,015	$878	$759
620 - 699	659	576	2,483	2,481	317	265
Below 620 [2]	50	50	574	631	74	62
Total	$7,358	$6,127	$10,434	$10,127	$1,269	$1,086

[1] Excludes $521 million and $629 million of guaranteed residential loans at September 30, 2016 and December 31, 2015, respectively.

[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.

[3] Excludes $5.8 billion and $4.9 billion of guaranteed student loans at September 30, 2016 and December 31, 2015, respectively.

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

	September 30, 2016				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$67,751	$36	$10	$501	$68,298
CRE	5,044	2	—	10	5,056
Commercial construction	3,873	—	—	2	3,875
Total commercial loans	76,668	38	10	513	77,229
Residential loans:					
Residential mortgages - guaranteed	148	54	319	—	521
Residential mortgages - nonguaranteed [1]	26,038	77	8	183	26,306
Residential home equity products	11,866	77	—	235	12,178
Residential construction	381	1	—	11	393
Total residential loans	38,433	209	327	429	39,398
Consumer loans:					
Guaranteed student	4,526	522	796	—	5,844
Other direct	7,322	28	3	5	7,358
Indirect	10,329	103	—	2	10,434
Credit cards	1,251	10	8	—	1,269
Total consumer loans	23,428	663	807	7	24,905
Total LHFI	$138,529	$910	$1,144	$949	$141,532

[1] Includes $234 million of loans measured at fair value, the majority of which were accruing current.
[2] Nonaccruing loans past due 90 days or more totaled $342 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs, performing second lien loans where the first lien loan is nonperforming, and certain energy-related commercial loans.

	December 31, 2015				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$66,670	$61	$23	$308	$67,062
CRE	6,222	3	—	11	6,236
Commercial construction	1,952	—	2	—	1,954
Total commercial loans	74,844	64	25	319	75,252
Residential loans:					
Residential mortgages - guaranteed	192	59	378	—	629
Residential mortgages - nonguaranteed [1]	24,449	105	7	183	24,744
Residential home equity products	12,939	87	—	145	13,171
Residential construction	365	3	—	16	384
Total residential loans	37,945	254	385	344	38,928
Consumer loans:					

Guaranteed student	3,861	500	561	—	4,922
Other direct	6,094	24	3	6	6,127
Indirect	10,022	102	—	3	10,127
Credit cards	1,070	9	7	—	1,086
Total consumer loans	21,047	635	571	9	22,262
Total LHFI	$133,836	$953	$981	$672	$136,442

[1] Includes $257 million of loans measured at fair value, the majority of which were accruing current.

[2] Nonaccruing loans past due 90 days or more totaled $336 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans where the first lien loan is nonperforming, and certain energy-related commercial loans.

Notes to Consolidated Financial Statements (Unaudited), continued

Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Commercial nonaccrual loans greater than $3 million and certain commercial, residential, 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 are not included in the following tables. Additionally, the following tables exclude guaranteed consumer student loans and guaranteed residential mortgages for which there was nominal risk of principal loss.

(Dollars in millions)	September 30, 2016			December 31, 2015		
	Unpaid Principal Balance	Amortized Cost [1]	Related Allowance	Unpaid Principal Balance	Amortized Cost [1]	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial loans:						
C&I	$278	$263	$—	$55	$42	$—
CRE	—	—	—	11	9	—
Total commercial loans	278	263	—	66	51	—
Residential loans:						
Residential mortgages - nonguaranteed	468	361	—	500	380	—
Residential construction	16	8	—	29	8	—
Total residential loans	484	369	—	529	388	—
Impaired loans with an allowance recorded:						
Commercial loans:						
C&I	239	171	40	173	167	28
Total commercial loans	239	171	40	173	167	28
Residential loans:						
Residential mortgages - nonguaranteed	1,320	1,288	160	1,381	1,344	178
Residential home equity products	837	766	54	740	670	60
Residential construction	113	112	11	127	125	14
Total residential loans	2,270	2,166	225	2,248	2,139	252
Consumer loans:						
Other direct	10	10	1	11	11	1
Indirect	108	107	5	114	114	5
Credit cards	24	6	1	24	6	1
Total consumer loans	142	123	7	149	131	7
Total impaired loans	$3,413	$3,092	$272	$3,165	$2,876	$287

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

Included in the impaired loan balances above at September 30, 2016 and December 31, 2015 were $2.5 billion and $2.6 billion, respectively, of accruing TDRs at amortized cost, of which 97% were current. See Note 1, “Significant Accounting Policies,” to the Company's 2015 Annual Report on Form 10-K for further information regarding the Company’s loan impairment policy.

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended September 30				Nine Months Ended September 30			
	2016		2015		2016		2015	
(Dollars in millions)	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]
Impaired loans with no related allowance recorded:								
Commercial loans:								
C&I	$268	$1	$51	$—	$200	$1	$53	$1
CRE	—	—	9	—	—	—	10	—
Total commercial loans	268	1	60	—	200	1	63	1
Residential loans:								
Residential mortgages - nonguaranteed	364	4	330	4	368	12	335	11
Residential construction	8	—	9	—	8	—	11	—
Total residential loans	372	4	339	4	376	12	346	11
Impaired loans with an allowance recorded:								
Commercial loans:								
C&I	188	—	20	—	185	1	23	1
Total commercial loans	188	—	20	—	185	1	23	1
Residential loans:								
Residential mortgages - nonguaranteed	1,288	15	1,393	17	1,292	48	1,396	52
Residential home equity products	771	7	640	7	780	22	646	21
Residential construction	112	1	124	2	114	4	125	6
Total residential loans	2,171	23	2,157	26	2,186	74	2,167	79
Consumer loans:								
Other direct	10	—	12	—	11	—	12	—
Indirect	109	1	114	1	115	4	119	4
Credit cards	6	—	6	—	6	—	7	—
Total consumer loans	125	1	132	1	132	4	138	4
Total impaired loans	$3,124	$29	$2,708	$31	$3,079	$92	$2,737	$96

[1] Of the interest income recognized during the three and nine months ended September 30, 2016, cash basis interest income was less than $1 million and $2 million, respectively.
Of the interest income recognized during the three and nine months ended September 30, 2015, cash basis interest income was $1 million and $3 million, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NPAs are presented in the following table:

(Dollars in millions)	September 30, 2016	December 31, 2015
Nonaccrual/NPLs:		
Commercial loans:		
C&I	$501	$308
CRE	10	11
Commercial construction	2	—
Residential loans:		
Residential mortgages - nonguaranteed	183	183
Residential home equity products	235	145
Residential construction	11	16
Consumer loans:		
Other direct	5	6
Indirect	2	3
Total nonaccrual/NPLs [1]	949	672
OREO [2]	57	56
Other repossessed assets	13	7
Total NPAs	$1,019	$735

[1] Nonaccruing restructured loans are included in total nonaccrual/NPLs.
[2] Does not include foreclosed real estate related to loans insured by the FHA or 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 or the VA totaled $51 million and $52 million at September 30, 2016 and December 31, 2015, respectively.

The Company's recorded investment of nonaccruing loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2016 and December 31, 2015 was $105 million and $112 million, respectively. The Company's recorded investment of accruing loans secured by residential real estate properties for which formal foreclosure proceedings are in process at September 30, 2016 and December 31, 2015 was $140 million and $152 million, of which $131 million and $141 million were insured by the FHA or the VA, respectively.

At September 30, 2016, OREO included $46 million of foreclosed residential real estate properties and $9 million of foreclosed commercial real estate properties, with the remainder related to land.
At December 31, 2015, OREO included $39 million of foreclosed residential real estate properties and $11 million of foreclosed commercial real estate properties, with the remainder related to land.

Notes to Consolidated Financial Statements (Unaudited), continued

Restructured Loans

A TDR is a loan for which the Company has granted an economic concession to the borrower, in response to certain instances of financial difficulty experienced by the borrower that 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 certain

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 September 30, 2016 and December 31, 2015, the Company had $19 million and $4 million, respectively, of commitments to lend additional funds to debtors whose terms have been modified in a TDR.

The number and amortized cost of loans modified under the terms of a TDR, by type of modification, are presented in the following tables:

	Three Months Ended September 30, 2016 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	44	$—	$—	$49	$49
CRE	2	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	311	2	22	1	25
Residential home equity products	884	—	—	55	55
Residential construction	26	—	—	—	—
Consumer loans:					
Other direct	41	—	—	—	—
Indirect	897	—	—	9	9
Credit cards	187	—	1	—	1
Total TDRs	2,392	$2	$23	$114	$139

	Nine months ended September 30, 2016 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	79	$—	$—	$95	$95
CRE	2	—	—	—	—
Commercial construction	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	550	2	80	9	91
Residential home equity products	2,415	—	9	182	191
Residential construction	26	—	—	—	—

Consumer loans:					
Other direct	73	—	—	1	1
Indirect	1,815	—	—	30	30
Credit cards	539	—	2	—	2
Total TDRs	5,500	$2	$91	$317	$410

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

[2] Restructured loans which had forgiveness of amounts contractually due under the terms of the loan may have had other concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during the three and nine months ended September 30, 2016 was immaterial.

21

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended September 30, 2015 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	18	$—	$—	$—	$—
Residential loans:					
Residential mortgages - nonguaranteed	175	3	32	10	45
Residential home equity products	419	—	7	21	28
Residential construction	6	—	—	—	—
Consumer loans:					
Other direct	10	—	—	—	—
Indirect	611	—	—	13	13
Credit cards	157	—	1	—	1
Total TDRs	1,396	$3	$40	$44	$87

	Nine months ended September 30, 2015 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	63	$—	$1	$5	$6
CRE	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	632	10	95	20	125
Residential home equity products	1,386	—	20	62	82
Residential construction	17	—	—	—	—
Consumer loans:					
Other direct	47	—	—	1	1
Indirect	1,999	—	—	39	39
Credit cards	529	—	2	—	2
Total TDRs	4,674	$10	$118	$127	$255

[1] Includes loans modified under the terms of a TDR that were charged-off during the period.
[2] Restructured loans which had forgiveness of amounts contractually due under the terms of the loan may have had other concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during the three and nine months ended September 30, 2015 was immaterial.

TDRs that have defaulted during the three and nine months ended September 30, 2016 and 2015 that were first modified within the previous 12 months were immaterial. The majority of loans that were modified 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 risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily within Florida, Georgia, Maryland, North Carolina, and Virginia. The Company engages in limited international banking activities. The Company's total cross-border outstanding loans were $2.1 billion and $1.6 billion at September 30, 2016 and December 31, 2015, respectively.

With respect to collateral concentration, at September 30, 2016, the Company owned $39.4 billion in loans secured by residential real estate, representing 28% of total LHFI. Additionally, the Company had $10.4 billion in commitments to extend credit on home equity lines and $7.5 billion in mortgage loan commitments outstanding at September 30, 2016. At December 31, 2015, the Company owned $38.9 billion in loans secured by residential real estate, representing 29% of total LHFI, and had $10.5 billion in commitments to extend credit on home equity lines and $3.2 billion in mortgage loan commitments outstanding. At September 30, 2016 and December 31, 2015, 1% and 2% of residential loans owned were guaranteed by a federal agency or a GSE, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 6 - 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 is summarized in the following table:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2016	2015	2016	2015
Balance, beginning of period	$1,840	$1,886	$1,815	$1,991
Provision for loan losses	95	23	338	107
Provision for unfunded commitments	2	9	5	7
Loan charge-offs	(150)	(102)	(428)	(356)
Loan recoveries	24	31	81	98
Balance, end of period	$1,811	$1,847	$1,811	$1,847
Components:				
ALLL			$1,743	$1,786
Unfunded commitments reserve [1]			68	61
Allowance for credit losses			$1,811	$1,847

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

Activity in the ALLL by loan segment for the three months ended September 30, 2016 and 2015 is presented in the following tables:

	Three Months Ended September 30, 2016			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$1,147	$439	$188	$1,774
Provision/(benefit) for loan losses	81	(36)	50	95
Loan charge-offs	(78)	(28)	(44)	(150)
Loan recoveries	7	7	10	24
Balance, end of period	$1,157	$382	$204	$1,743

	Three Months Ended September 30, 2015			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$993	$676	$165	$1,834
Provision/(benefit) for loan losses	33	(39)	29	23
Loan charge-offs	(23)	(47)	(32)	(102)
Loan recoveries	10	11	10	31
Balance, end of period	$1,013	$601	$172	$1,786

	Nine Months Ended September 30, 2016			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$1,047	$534	$171	$1,752
Provision/(benefit) for loan losses	293	(72)	117	338
Loan charge-offs	(209)	(102)	(117)	(428)
Loan recoveries	26	22	33	81
Balance, end of period	$1,157	$382	$204	$1,743

	Nine Months Ended September 30, 2015			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$986	$777	$174	$1,937
Provision/(benefit) for loan losses	74	(30)	63	107
Loan charge-offs	(82)	(177)	(97)	(356)
Loan recoveries	35	31	32	98
Balance, end of period	$1,013	$601	$172	$1,786

Notes to Consolidated Financial Statements (Unaudited), continued

As discussed in Note 1, “Significant Accounting Policies,” to the Company's 2015 Annual Report on Form 10-K, the ALLL is composed of both specific allowances for certain nonaccrual loans and TDRs and general allowances grouped into loan pools based on similar characteristics. No allowance is required for

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

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

	September 30, 2016							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL
Individually evaluated	$434	$40	$2,535	$225	$123	$7	$3,092	$272
Collectively evaluated	76,795	1,117	36,629	157	24,782	197	138,206	1,471
Total evaluated	77,229	1,157	39,164	382	24,905	204	141,298	1,743
LHFI at fair value	—	—	234	—	—	—	234	—
Total LHFI	$77,229	$1,157	$39,398	$382	$24,905	$204	$141,532	$1,743

	December 31, 2015							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL
Individually evaluated	$218	$28	$2,527	$252	$131	$7	$2,876	$287
Collectively evaluated	75,034	1,019	36,144	282	22,131	164	133,309	1,465
Total evaluated	75,252	1,047	38,671	534	22,262	171	136,185	1,752
LHFI at fair value	—	—	257	—	—	—	257	—
Total LHFI	$75,252	$1,047	$38,928	$534	$22,262	$171	$136,442	$1,752

NOTE 7 – 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," in the Company's 2015 Annual Report on Form 10-K for additional information regarding the Company's goodwill accounting policy.

The Company performed a qualitative goodwill assessment in the first, second, and third quarters of 2016, considering changes in key assumptions and monitoring other events or

changes in circumstances occurring since the most recent goodwill impairment analyses performed as of October 1, 2015. The Company concluded, based on the totality of factors observed, that it is not more-likely-than-not that the fair values of its reporting units are less than their respective carrying values. Accordingly, goodwill was not quantitatively tested for impairment during the nine months ended September 30, 2016.

There were no changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2016 and 2015.

24

Other Intangible Assets

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

(Dollars in millions)	MSRs - Fair Value	Other	Total
Balance, January 1, 2016	$1,307	$18	$1,325
Amortization [1]	—	(6)	(6)
Servicing rights originated	198	—	198
Servicing rights purchased	104	—	104
Changes in fair value:			
Due to changes in inputs and assumptions [2]	(328)	—	(328)
Other changes in fair value [3]	(160)	—	(160)
Servicing rights sold	(2)	—	(2)
Balance, September 30, 2016	$1,119	$12	$1,131
Balance, January 1, 2015	$1,206	$13	$1,219
Amortization [1]	—	(6)	(6)
Servicing rights originated	185	13	198
Servicing rights purchased	109	—	109
Changes in fair value:			
Due to changes in inputs and assumptions [2]	(74)	—	(74)
Other changes in fair value [3]	(161)	—	(161)
Servicing rights sold	(3)	—	(3)
Balance, September 30, 2015	$1,262	$20	$1,282

[1] Does not include expense associated with non-qualified community development investments. See Note 8, "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.

The Company's estimated future amortization of intangible assets subject to amortization was immaterial at September 30, 2016.

Servicing Rights

The Company acquires servicing rights and retains servicing rights for certain of its sales or securitizations of residential mortgage and consumer indirect loans. MSRs on residential mortgage loans and servicing rights on consumer indirect loans are the only servicing assets capitalized by the Company and are classified within other intangible assets on the Company's Consolidated Balance Sheets.

Mortgage Servicing Rights

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and nine months ended September 30, 2016 was $94 million and $272 million, respectively, and $89 million and $254 million for the three and nine months ended September 30, 2015, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At September 30, 2016 and December 31, 2015, the total UPB of mortgage loans serviced was $154.0 billion and $148.2

billion, respectively. Included in these amounts were $123.9 billion and $121.0 billion at September 30, 2016 and December 31, 2015, respectively, of loans serviced for third parties. The Company purchased MSRs on residential loans with a UPB of $10.9 billion during the nine months ended September 30, 2016; $8.1 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 2016. The Company purchased MSRs on residential loans with a UPB of $10.3 billion during the nine months ended September 30, 2015. During the nine months ended September 30, 2016 and 2015, the Company sold MSRs on residential loans, at a price approximating their fair value, with a UPB of $464 million and $590 million, respectively. The Company calculates the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income using prepayment projections, spreads, and other assumptions. Senior management and the STM valuation committee review all significant assumptions at least quarterly, comparing these inputs to various sources of market data. Changes to valuation model inputs are reflected in the periods' results. See Note 14, “Fair Value Election and Measurement,” for further information regarding the Company's MSR valuation methodology.

A summary of the key inputs used to estimate the fair value of the Company’s MSRs at September 30, 2016 and December 31, 2015, and the sensitivity of the fair values to immediate 10% and 20% adverse changes in those inputs, are presented in the following table.

(Dollars in millions)	September 30, 2016		December 31, 2015	
Fair value of MSRs	$1,119		$1,307	
Prepayment rate assumption (annual)	14	%	10	%
Decline in fair value from 10% adverse change	$50		$49	
Decline in fair value from 20% adverse change	97		94	
Option adjusted spread (annual)	9	%	8	%
Decline in fair value from 10% adverse change	$40		$64	
Decline in fair value from 20% adverse change	78		123	
Weighted-average life (in years)	5.4		6.6	
Weighted-average coupon	4.0	%	4.1	%

These MSR sensitivities are hypothetical and should be used with caution. Changes in fair value based on variations in assumptions generally cannot be extrapolated because (i) the relationship of the change in an assumption to the change in fair value may not be linear and (ii) changes in one assumption may result in changes in another, which might magnify or counteract the sensitivities. The sensitivities do not reflect the effect of hedging activity undertaken by the Company to offset changes in the fair value of MSRs. See Note 13, “Derivative Financial Instruments,” for further information regarding these hedging activities.

Consumer Loan Servicing Rights

In June 2015, the Company completed the securitization of $1.0 billion of indirect auto loans, with servicing rights retained, and recognized a $13 million servicing asset at the time of sale. See Note 8, “Certain Transfers of Financial Assets and Variable Interest Entities,” for additional information on the Company's securitization transactions.

Income earned by the Company on its consumer loan servicing rights is derived primarily from contractually specified servicing fees and other ancillary fees. Such income earned for the three and nine months ended September 30, 2016 was $2 million and $5 million, respectively, and is reported in other noninterest income in the Consolidated Statements of Income. Income earned for the three and nine months ended September 30, 2015 was $2 million and $3 million, respectively.

At September 30, 2016 and December 31, 2015, the total UPB of consumer indirect loans serviced was $578 million and $807 million, respectively, all of which were serviced for third parties. No consumer loan servicing rights were purchased or sold during the nine months ended September 30, 2016 and 2015.

Consumer loan servicing rights are accounted for at amortized cost and are monitored for impairment on an ongoing basis. The Company calculates the fair value of consumer servicing rights using a valuation model that calculates the present value of estimated future net servicing income using prepayment projections and other assumptions. Impairment, if any, is recognized when changes in valuation model inputs reflect a fair value for the servicing asset that is below its respective carrying value. At September 30, 2016, the amortized cost of the Company's consumer loan servicing rights was $5 million.

NOTE 8 - CERTAIN TRANSFERS OF FINANCIAL ASSETS AND VARIABLE INTEREST ENTITIES

The Company has transferred loans and securities in sale or securitization transactions in which the Company retains certain beneficial interests or servicing rights. These transfers of financial assets include certain residential mortgage loans, commercial and corporate loans, and consumer loans, as discussed in the following section, "Transfers of

Financial Assets." Cash receipts on beneficial interests held related to these transfers were $4 million and $10 million for the three and nine months ended September 30, 2016, and $6 million and $14 million for the three and nine months ended September 30, 2015, respectively. The servicing fees related to these asset transfers (excluding servicing fees for residential mortgage loan transfers to GSEs, which are discussed in Note 7, “Goodwill and Other Intangible Assets”) were immaterial for both the three and nine months ended September 30, 2016 and 2015.

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/or collateral management fees. 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, 2016 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, 2016 that changed the Company’s sale conclusion with regards to previously transferred residential mortgage loans, indirect auto loans, student loans, or commercial and corporate loans.

Transfers of Financial Assets
The following discussion summarizes transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement.
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 $131 million and $288 million for the three and nine months ended September 30, 2016, and $48 million and $171 million for the three and nine months ended September 30, 2015, respectively. The Company has made certain representations and warranties with respect to the transfer of these loans. See Note 12, "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. At September 30, 2016 and December 31, 2015, the fair value of securities received totaled $32 million and $38 million, respectively.
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. Total assets of the unconsolidated entities in which the Company has a VI were $211 million and $241 million at September 30, 2016 and December 31, 2015, respectively.
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 both September 30, 2016 and December 31, 2015, and any repurchase obligations or other losses it incurs as a result of any guarantees related to these securitizations, which is discussed further in Note 12, "Guarantees."
Commercial and Corporate Loans
The Company holds CLOs issued by securitization entities that own commercial leveraged loans and bonds, certain of which were transferred to the entities by the Company. The Company has determined that these entities are VIEs and that it is not the primary beneficiary of these entities because it does not possess the power to direct the activities that most significantly impact the economic performance of the entities. Total assets at September 30, 2016 and December 31, 2015, of unconsolidated entities in which the Company has a VI were $355 million and $525 million, respectively. Total liabilities at September 30, 2016 and December 31, 2015, of unconsolidated entities in which the Company has a VI were $319 million and $482 million,

respectively. At September 30, 2016 and December 31, 2015, the Company's holdings included an immaterial amount of preference share exposure and senior debt exposure.

Consumer Loans
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, 2016 and December 31, 2015, the Company's Consolidated Balance Sheets reflected $233 million and $262 million of assets held by the securitization entity and $230 million and $259 million of debt

issued by the entity, respectively.
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 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 defaulting 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.
Indirect Auto Loans
In June 2015, the Company transferred indirect auto loans to a securitization entity, which was determined to be a VIE, and accounted for the transfer as a sale. The Company retained servicing rights for the transferred loans, but did not retain any debt or equity interest in the securitization entity. The fees received for servicing do not represent a VI and, therefore, the Company does not consolidate the securitization entity.
At the time of the transfer, the UPB of the transferred loans was $1.0 billion and the consideration received was $1.0 billion, resulting in an immaterial pre-tax loss for the year ended December 31, 2015, which was recorded in other noninterest income in the Consolidated Statements of Income. See Note 7, "Goodwill and Other Intangible Assets," for additional information regarding the servicing asset recognized in this transaction.
To the extent that losses on the transferred loans are the result of a breach of representations and warranties related to either the initial transfer or the Company's ongoing servicing responsibilities, the Company may be obligated to either cure the breach or repurchase the affected loans. The Company’s maximum exposure to loss related to the loans transferred to the securitization entity would arise from a breach of representations

Notes to Consolidated Financial Statements (Unaudited), continued

and warranties and/or a breach of the Company's servicing obligations. Potential losses suffered by the securitization entity that the Company may be liable for are limited to approximately

$578 million, which is the total remaining UPB of transferred loans and the carrying value of the servicing asset.

The Company's total managed loans, including the LHFI portfolio and other securitized and unsecuritized loans, 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, 2016 and December 31, 2015, as well as the related net charge-offs for the three and nine months ended September 30, 2016 and 2015.

	Portfolio Balance [1]		Past Due and Nonaccrual [2]		Net Charge-offs			
					Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	2016	2015	2016	2015
LHFI portfolio:								
Commercial	$77,229	$75,252	$523	$344	$71	$13	$183	$47
Residential	39,398	38,928	756	729	21	36	80	146
Consumer	24,905	22,262	814	580	34	22	84	65
Total LHFI portfolio	141,532	136,442	2,093	1,653	126	71	347	258
Managed securitized loans [3]:								
Residential	120,668	116,990	117 [3]	126 [3]	2 [4]	4 [4]	6 [4]	10 [4]
Consumer	578	807	—	1	1	1	2	1
Total managed securitized loans	121,246	117,797	117	127	3	5	8	11
Managed unsecuritized loans [5]	3,269	3,973	501	597	—	—	—	—
Total managed loans	$266,047	$258,212	$2,711	$2,377	$129	$76	$355	$269

[1] Excludes $3.8 billion and $1.8 billion of LHFS at September 30, 2016 and December 31, 2015, respectively.
[2] Excludes $2 million and $1 million of past due LHFS at September 30, 2016 and December 31, 2015, respectively.
[3] Excludes loans that have completed the foreclosure or short sale process (i.e., involuntary prepayments).
[4] Net charge-offs are associated with $429 million and $501 million of managed securitized residential loans at September 30, 2016 and December 31, 2015, respectively. Net charge-off data is not reported to the Company for the remaining balance of $120.2 billion and $116.5 billion of managed securitized residential loans at September 30, 2016 and December 31, 2015, respectively.
[5] Comprised of unsecuritized residential 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.

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.

Total Return Swaps

At both September 30, 2016 and December 31, 2015, outstanding notional amounts of the Company's VIE-facing TRS contracts totaled $2.2 billion. The Company's related senior financing outstanding to VIEs was $2.2 billion at both

September 30, 2016 and December 31, 2015. These financings were classified within trading assets and derivative instruments on the Consolidated Balance Sheets and were measured at fair value. 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 third party clients. For additional information on the Company’s TRS contracts and its involvement with these VIEs, see Note 13, “Derivative Financial Instruments,” in this Form 10-Q, as well as Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Company's 2015 Annual Report on Form 10-K.

Community Development Investments

As part of its community reinvestment initiatives, the Company invests in multi-family affordable housing developments and other community development entities as a limited and/or general partner and/or a debt provider. The Company receives tax credits for its limited partner investments. The Company has determined that the vast majority of the related partnerships are VIEs.

In limited circumstances, the Company owns both the limited partner and general partner interests, in which case the related partnerships are not considered VIEs and are consolidated by the Company. These properties were held for sale at September 30, 2016 and were immaterial. There were no properties sold during the nine months ended September 30, 2016. During the nine months ended September 30, 2015, properties with a carrying value of $72 million were sold for gains of $19 million. No properties were sold during the three months ended September 30, 2015.

The Company has concluded that it is not the primary beneficiary of affordable housing partnerships when it invests as a limited partner and there is a third party general partner. The investments are accounted for in accordance with the accounting guidance for investments in affordable housing projects. 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. Assets of $1.7 billion and $1.6 billion in these and other community development partnerships were not included in the Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, respectively. The Company's limited partner interests had carrying values of $804 million and $672 million at September 30, 2016 and December 31, 2015, respectively, and are recorded in other assets on the Company's Consolidated Balance Sheets. The Company's maximum exposure to loss for these investments totaled $1.1 billion at both September 30, 2016 and December 31, 2015. The Company's maximum exposure to loss would result from the loss of its limited partner investments along with $265 million and $268 million of loans, interest-rate swap fair value exposures, or letters of credit issued by the Company to the entities at September 30, 2016 and December 31, 2015, respectively. The remaining exposure to loss is primarily attributable to unfunded equity commitments that the Company is required to fund if certain conditions are met.

The Company also owns noncontrolling interests in funds whose purpose is to invest in community developments. At September 30, 2016 and December 31, 2015, the Company's investment in these funds totaled $157 million and $132 million, respectively. The Company's maximum exposure to loss on its investment in these funds is comprised of its equity investments in the funds, loans issued, and any additional unfunded equity commitments, which totaled $503 million and $321 million at September 30, 2016 and December 31, 2015, respectively.

During the three and nine months ended September 30, 2016, the Company recognized $27 million and $65 million of tax credits for qualified affordable housing projects, and $23 million and $62 million of amortization on these qualified affordable housing projects in the provision for income taxes, respectively. During the three and nine months ended September 30, 2015, the Company recognized $18 million and $46 million of tax credits for qualified affordable housing projects, and $17 million and $45 million of amortization on these qualified affordable housing projects in the provision for income taxes, respectively.

Certain of the Company's community development investments do not qualify as affordable housing projects for accounting purposes. The Company recognized tax credits for these investments of $18 million and $46 million during the three and nine months ended September 30, 2016, respectively, in the provision for income taxes. During the three and nine months ended September 30, 2015, the Company recognized $12 million and $30 million of tax credits for these community development investments, respectively, in the provision for income taxes. Amortization recognized on these investments totaled $13 million and $33 million, and $8 million and $18 million, during the three and nine months ended September 30, 2016 and 2015, respectively. The amortization is classified within Amortization in the Company's Consolidated Statements of Income.

NOTE 9 – NET INCOME PER COMMON SHARE

Equivalent shares of 8 million and 14 million related to common stock options and common stock warrants outstanding at September 30, 2016 and 2015, respectively, were excluded from the computations of diluted net income per average common share because they would have been anti-dilutive. On April 1, 2016, the Company early adopted ASU 2016-09, which provides improvements to employee share-based payment accounting, with an effective date of January 1, 2016. The early adoption

favorably impacted both basic and diluted EPS by $0.02 per share for the nine months ended September 30, 2016. See Note 1, "Significant Accounting Policies," for additional information.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in millions, except per share data)	2016	2015	2016	2015
Net income	$474	$537	$1,413	$1,449
Preferred dividends	(17)	(16)	(49)	(48)
Dividends and undistributed earnings allocated to unvested shares	—	(2)	(1)	(5)
Net income available to common shareholders	$457	$519	$1,363	$1,396
Average basic common shares	496	513	501	517
Effect of dilutive securities:				
Stock options	2	2	2	2
Restricted stock, RSUs, and warrants	3	4	3	4
Average diluted common shares	501	519	506	523
Net income per average common share - diluted	$0.91	$1.00	$2.70	$2.67
Net income per average common share - basic	0.92	1.01	2.72	2.70

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 10 - INCOME TAXES
For the three months ended September 30, 2016 and 2015, the provision for income taxes was $215 million and $187 million, representing effective tax rates of 31% and 26%, respectively. The effective tax rates for the three months ended September 30, 2016 and 2015 were favorably impacted by net discrete income tax benefits of $3 million and $35 million, respectively. For the nine months ended September 30, 2016 and 2015, the provision for income taxes was $611 million and $579 million, representing effective tax rates of 30% and 29%, respectively. The effective tax rates for the nine months ended September 30, 2016 and 2015 were favorably impacted by net discrete income tax benefits of $13 million and $50 million, respectively.

The provision for income taxes includes both federal and state income taxes and differs from the provision using statutory rates primarily due to favorable permanent tax items such as income from lending to tax exempt entities and federal tax credits from community reinvestment activities. The Company calculated the provision for income taxes for the three and nine months ended September 30, 2016 and 2015 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 11 - EMPLOYEE BENEFIT PLANS
The Company sponsors various short-term incentive and LTI plans and programs for eligible employees, such as defined contribution, noncontributory pension, and other postretirement benefit plans, as well as the issuance of RSUs, restricted stock, performance stock units, and AIP and LTI cash. See Note 15, “Employee Benefit Plans,” to the Company's 2015 Annual

Report on Form 10-K for further information regarding the employee benefit plans.
On April 1, 2016, the Company early adopted ASU 2016-09, which provides improvements to employee share-based payment accounting, with an effective date of January 1, 2016. See Note 1, "Significant Accounting Policies," for additional information.

Stock-based compensation expense recognized in noninterest expense consisted of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2016	2015	2016	2015
Stock options	$—	$—	$—	$1
Restricted stock	—	4	2	13
Performance stock units	16	5	39	21
RSUs	13	7	44	35
Total stock-based compensation	$29	$16	$85	$70
Stock-based compensation tax benefit	$11	$6	$32	$27

Changes in the components of net periodic benefit related to the Company's pension and other postretirement benefits plans are presented in the following table:

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)	2016	2015	2016	2015	2016	2015	2016	2015
Service cost	$1	$2	$4	$4	$—	$—	$—	$—
Interest cost	24	29	73	87	—	1	1	2
Expected return on plan assets	(46)	(52)	(140)	(155)	(1)	(2)	(3)	(4)
Amortization of prior service credit	—	—	—	—	(1)	(1)	(4)	(4)
Amortization of actuarial loss	6	5	19	16	—	—	—	—
Net periodic benefit	($15)	($16)	($44)	($48)	($2)	($2)	($6)	($6)

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

NOTE 12 – 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, 2016. 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 13, "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.

At September 30, 2016 and December 31, 2015, the Company's maximum potential exposure for issued financial and performance standby letters of credit was $2.8 billion and $2.9 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 management of credit risk for letters of credit leverages the risk rating process to focus greater visibility on higher risk and/or higher dollar letters of credit. The allowance for credit losses 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 6, "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 September 30, 2016 and December 31, 2015.

Loan Sales and Servicing

STM, a consolidated subsidiary of 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. Prior to 2008, the Company also sold mortgage loans through a limited number of Company-sponsored securitizations. When mortgage 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, STM may be obligated to repurchase the mortgage loan or to reimburse an investor for losses incurred (make whole requests), if such deficiency or defect cannot be cured by STM within the specified period following discovery. Additionally, breaches of underwriting and servicing representations and warranties can result in loan repurchases, as well as adversely affect the valuation of MSRs, servicing advances, or other mortgage loan-related exposures, such as OREO. These representations and warranties may extend through the life of the mortgage loan. STM's risk of loss under its representations and warranties is partially driven by borrower payment performance since investors will perform extensive reviews of delinquent loans as a means of mitigating losses.

Non-agency loan sales include whole loan sales and loans sold in private securitization transactions. While representations and warranties have been made related to these sales, they differ from those made in connection with loans sold to the GSEs in that non-agency loans may not be required to meet the same underwriting standards and non-agency investors may be required to demonstrate that an alleged breach is material and caused the investors' loss. 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.

Notes to Consolidated Financial Statements (Unaudited), continued

The Company previously reached agreements in principle with Freddie Mac and Fannie Mae that relieve the Company of certain existing and future repurchase obligations related to loans sold from 2000-2008 to Freddie Mac and loans sold from 2000-2012 to Fannie Mae. Repurchase requests from GSEs, Ginnie Mae, and non-agency investors, for all vintages, are presented in the following table that summarizes demand activity.

	Nine Months Ended September 30	
(Dollars in millions)	2016	2015
Pending repurchase requests, beginning of period	$17	$47
Repurchase requests received	30	58
Repurchase requests resolved:		
Repurchased	(15)	(17)
Cured	(23)	(72)
Total resolved	(38)	(89)
Pending repurchase requests, end of period [1]	$9	$16
Percent from non-agency investors:		
Ending pending repurchase requests	49.9%	6.0 %
Repurchase requests received	— %	0.6 %

[1] Comprised of $4 million and $15 million from the GSEs, and $4 million and $1 million from non-agency investors at September 30, 2016 and 2015, respectively.

The repurchase and make whole requests received have been due primarily to alleged material breaches of representations related to compliance with the applicable underwriting standards, including borrower misrepresentation and appraisal issues. STM performs a loan-by-loan review of all requests and contests demands to the extent they are not considered valid.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions)	2016	2015	2016	2015
Balance, beginning of period	$51	$60	$57	$85
Repurchase benefit	(3)	(1)	(9)	(9)
Charge-offs, net of recoveries	—	—	—	(17)
Balance, end of period	$48	$59	$48	$59

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, inclusive of the Freddie Mac and Fannie Mae settlement agreements, GSE owned loans serviced by third party servicers, loans sold to private investors, and other indemnifications.

Notwithstanding the aforementioned agreements with Freddie Mac and Fannie Mae settling certain aspects of the Company's repurchase obligations, those institutions preserve their right to require repurchases arising from certain types of events, and that preservation of rights can impact future losses of the Company. While the 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 related liability is recorded in other liabilities on the Consolidated Balance Sheets, and the related repurchase benefit is recognized in mortgage production related income in the Consolidated Statements of Income. See Note 15, "Contingencies," for additional information on current legal matters related to loan sales.
The following table summarizes the carrying value of the Company's outstanding repurchased mortgage loans at:

(Dollars in millions)	September 30, 2016	December 31, 2015
Outstanding repurchased mortgage loans:		
Performing LHFI	$235	$255
Nonperforming LHFI	11	17
Total carrying value of outstanding repurchased mortgage loans	$246	$272

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, (iv) loss mitigation strategies including loan modifications, and (v) foreclosures.
The Company normally retains servicing rights when loans are transferred, however, servicing rights are occasionally sold to third parties. When MSRs are sold, the Company makes representations and warranties related to servicing standards and obligations, and recognizes a liability for contingent losses recorded in other liabilities on the Consolidated Balance Sheets. This liability, which is separate from the reserve for mortgage loan repurchases, totaled $8 million and $14 million at September 30, 2016 and December 31, 2015, respectively.

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 several 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, the U.S. Court of Appeals for the Second Circuit reversed the district court's approval of the settlement on June 30, 2016. The parties await further action on the appeal and/or a return of the case to the district court.

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 a quarterly payment 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 $15 million and $6 million at September 30, 2016 and December 31, 2015, respectively. The increase in fair value of the derivative liability was driven by changes in management's estimate of both the probability of certain litigation scenarios as well as the timing of the resolution of the Litigation. However, the ultimate impact to the Company could be significantly different based on the Litigation outcome.

NOTE 13 - 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 ALCO monitors all derivative activities. When derivatives have been entered into with clients, the Company generally manages the risk associated with these derivatives within the framework of its VAR methodology that monitors total daily exposure and seeks to manage the exposure on an overall basis. 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. Additionally, as a normal part of its operations, the Company enters into IRLCs on mortgage loans that are accounted for as freestanding derivatives and has certain contracts containing embedded derivatives that are measured, in their entirety, at fair value. All freestanding derivatives and 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 counterparty credit risk if the counterparty to the derivative contract does not perform as expected. The Company manages its exposure to 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 to certain counterparties as necessary. The Company’s derivative transactions may also be 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 clearinghouses. These clearinghouses 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.

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, 2016, these net asset positions were $1.1 billion, reflecting $1.9 billion of net derivative gains, adjusted for cash and other collateral of $811 million that the Company held in relation to these positions. At December 31, 2015, reported net derivative assets were $896 million, reflecting $1.4 billion of net derivative gains, adjusted for cash and other collateral held of $463 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 a derivative. The Company comprehensively manages this risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company measures its 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 Company adjusted the net fair value of its derivative contracts for estimates of counterparty credit risk by approximately $21 million and $4 million at September 30, 2016 and December 31, 2015, respectively. The increase in the net fair value adjustment during the nine months ended September 30, 2016 was due primarily to the combination of an enhancement of the Company's CVA/DVA methodology in the second quarter of 2016 to further incorporate market-based views of counterparty default probabilities as well as a decline in interest rates which resulted in higher counterparty exposure profiles. The impact from the associated methodology enhancements was an $11 million increase in the net fair value adjustment during the nine months ended September 30, 2016. The Company's approach for determining fair value adjustments of derivative instruments is subject to ongoing internal review and enhancement. This review includes consideration of whether to include a funding valuation adjustment in the fair value measurement of derivatives, which relates to the funding cost or benefit associated with collateralized derivative positions. For additional information on the Company's fair value measurements, see Note 14, "Fair Value Election and Measurement."

Currently, the majority of the Company’s derivatives contain contingencies that relate to the creditworthiness of the Bank. These contingencies, which are contained in industry standard master netting agreements, may be considered events of default. 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 $1.4 billion and $1.1 billion in fair value at September 30, 2016 and December 31, 2015, 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, 2016, the Bank held senior long-term debt credit ratings of Baal/A-/A- from Moody’s, S&P, and Fitch, respectively. At September 30, 2016, 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 $13 million at September 30, 2016. At September 30, 2016, $1.4 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $1.4 billion in collateral, primarily in the form of cash. If requested by the counterparty pursuant to the terms of the CSA, the Bank would be required to post additional collateral of approximately $5 million against these contracts if the Bank were downgraded to Baa3/BBB-. Further downgrades to Ba1/BB+ or below do not contain predetermined collateral posting levels.

Notional and Fair Value of Derivative Positions

The following tables present the Company’s derivative positions at September 30, 2016 and December 31, 2015. The notional amounts in the tables are presented on a gross basis and have been classified within derivative assets or derivative liabilities based on the estimated fair value of the individual contract at September 30, 2016 and December 31, 2015. 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. For contracts constituting a combination of options that contain a written option and a purchased option (such as a collar), the notional amount of each option is presented separately, with the purchased notional amount generally being presented as a derivative asset and the written notional amount being presented as a derivative liability. For contracts that contain a combination of options, the fair value is generally presented as a single value with the purchased notional amount if the combined fair value is positive, and with the written notional amount if the combined fair value is negative.

Notes to Consolidated Financial Statements (Unaudited), continued

	September 30, 2016			
	Asset Derivatives		Liability Derivatives	
(Dollars in millions)	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Derivative instruments designated in cash flow hedging relationships [1]				
Interest rate contracts hedging floating rate loans	$18,950	$359	$1,500	$3
Derivative instruments designated in fair value hedging relationships [2]				
Interest rate contracts hedging fixed rate debt	2,480	26	1,600	1
Interest rate contracts hedging brokered CDs	60	—	30	—
Total	2,540	26	1,630	1
Derivative instruments not designated as hedging instruments [3]				
Interest rate contracts hedging:				
MSRs [4]	13,499	812	19,800	516
LHFS, IRLCs [5]	4,620	12	7,015	32
LHFI	15	2	40	4
Trading activity [6]	66,678	2,600	66,930	2,412
Foreign exchange rate contracts hedging trading activity	3,603	102	3,440	83
Credit contracts hedging:				
Loans	15	—	635	9
Trading activity [7]	2,334	28	2,472	26

Equity contracts hedging trading activity [6]	19,841	2,059	29,182	2,464
Other contracts:				
IRLCs and other [8]	4,884	79	277	15
Commodities	629	59	626	56
Total	116,118	5,753	130,417	5,617
Total derivative instruments	$137,608	$6,138	$133,547	$5,621
Total gross derivative instruments, before netting		$6,138		$5,621
Less: Legally enforceable master netting agreements		(3,932)		(3,932)
Less: Cash collateral received/paid		(675)		(1,377)
Total derivative instruments, after netting		$1,531		$312

[1] See “Cash Flow Hedges” in this Note for further discussion.
[2] See “Fair Value Hedges” in this Note for further discussion.
[3] See “Economic Hedging and Trading Activities” in this Note for further discussion.
[4] Amount includes $7.3 billion of notional amounts related to interest rate futures. 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] Amount includes $946 million of notional amounts related to interest rate futures. 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] Amounts include $11.4 billion of notional amounts related to interest rate futures and $954 million of notional amounts related to equity futures. 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. Amounts also include notional amounts related to interest rate swaps hedging fixed rate debt.
[7] Asset and liability amounts include $6 million and $8 million, respectively, of notional amounts from purchased and written credit risk participation agreements, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.
[8] Includes $49 million notional amount that is based on the 3.2 million of Visa Class B shares, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009. See Note 12, “Guarantees” for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
(Dollars in millions)	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Derivative instruments designated in cash flow hedging relationships [1]				
Interest rate contracts hedging floating rate loans	$14,500	$130	$2,900	$11
Derivative instruments designated in fair value hedging relationships [2]				
Interest rate contracts hedging fixed rate debt	1,700	14	600	—
Interest rate contracts hedging brokered CDs	60	—	30	—
Total	1,760	14	630	—
Derivative instruments not designated as hedging instruments [3]				
Interest rate contracts hedging:				
MSRs [4]	7,782	198	16,882	98
LHFS, IRLCs [5]	4,309	10	2,520	5
LHFI	15	—	40	1
Trading activity [6]	67,164	1,983	66,854	1,796
Foreign exchange rate contracts hedging trading activity	3,648	127	3,227	122
Credit contracts hedging:				
Loans	—	—	175	2
Trading activity [7]	2,232	57	2,385	54

Equity contracts hedging trading activity [6]	19,138	1,812	27,154	2,222
Other contracts:				
IRLCs and other [8]	2,024	21	299	6
Commodities	453	113	448	111
Total	106,765	4,321	119,984	4,417
Total derivative instruments	$123,025	$4,465	$123,514	$4,428
Total gross derivative instruments, before netting		$4,465		$4,428
Less: Legally enforceable master netting agreements		(2,916)		(2,916)
Less: Cash collateral received/paid		(397)		(1,048)
Total derivative instruments, after netting		$1,152		$464

[1] See “Cash Flow Hedges” in this Note for further discussion.

[2] See “Fair Value Hedges” in this Note for further discussion.

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

[4] Amount includes $9.1 billion of notional amounts related to interest rate futures. 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] Amount includes $518 million of notional amounts related to interest rate futures. 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] Amounts include $12.6 billion of notional amounts related to interest rate futures and $329 million of notional amounts related to equity futures. 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. Amounts also include notional amounts related to interest rate swaps hedging fixed rate debt.

[7] Asset and liability amounts include $6 million and $9 million, respectively, of notional amounts from purchased and written credit risk participation agreements, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.

[8] Includes $49 million notional amount that is based on the 3.2 million of Visa Class B shares, the conversion ratio from Class B shares to Class A shares, and the Class A share price at the derivative inception date of May 28, 2009. This derivative was established upon the sale of Class B shares in the second quarter of 2009. See Note 12, “Guarantees” for additional information.

Notes to Consolidated Financial Statements (Unaudited), continued

Impact of Derivative Instruments on the Consolidated Statements of Income and Shareholders’ Equity

The impacts of derivative instruments on the Consolidated Statements of Income and the Consolidated Statements of Shareholders’ Equity for the three and nine months ended September 30 are presented in the following tables. The impacts are segregated between derivatives that are designated in hedge accounting relationships and those that are used for economic

hedging or trading purposes, with further identification of the underlying risks in the derivatives and the hedged items, where appropriate. The tables do not disclose the financial impact of the activities that these derivative instruments are intended to hedge.

(Dollars in millions)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016		
	Amount of Pre-tax Loss Recognized in OCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain Reclassified from AOCI into Income (Effective Portion)	Classification of Pre-tax Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)
Derivative instruments in cash flow hedging relationships:					
Interest rate contracts hedging floating rate loans [1]	($78)	$36	$408	$113	Interest and fees on loans

[1] During the three and nine months ended September 30, 2016, the Company also reclassified $23 million and $77 million of pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been terminated or de-designated and are reclassified into earnings consistent with the pattern of net cash flows expected to be recognized.

(Dollars in millions)	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Amount of Loss on Derivatives Recognized in Income	Amount of Gain on Related Hedged Items Recognized in Income	Amount of Gain Recognized in Income on Hedges (Ineffective Portion)	Amount of Gain on Derivatives Recognized in Income	Amount of Loss on Related Hedged Items Recognized in Income	Amount of Gain Recognized in Income on Hedges (Ineffective Portion)
Derivative instruments in fair value hedging relationships:						
Interest rate contracts hedging fixed rate debt [1]	($10)	$11	$1	$20	($19)	$1
Interest rate contracts hedging brokered CDs [1]	—	—	—	—	—	—

Total	($10)	$11	$1	$20	($19)	$1

[1] Amounts are recognized in trading income in the Consolidated Statements of Income.

(Dollars in millions)	Classification of Gain/(Loss) Recognized in Income on Derivatives	Amount of Gain/(Loss) Recognized in Income on Derivatives During the Three Months Ended September 30, 2016	Amount of Gain/(Loss) Recognized in Income on Derivatives During the Nine Months Ended September 30, 2016
Derivative instruments not designated as hedging instruments:			
Interest rate contracts hedging:			
MSRs	Mortgage servicing related income	$15	$306
LHFS, IRLCs	Mortgage production related income	(35)	(162)
LHFI	Other noninterest income	—	(3)
Trading activity	Trading income	11	24
Foreign exchange rate contracts hedging trading activity	Trading income	36	52
Credit contracts hedging:			
Loans	Other noninterest income	(1)	(3)
Trading activity	Trading income	5	14
Equity contracts hedging trading activity	Trading income	1	5
Other contracts:			
IRLCs	Mortgage production related income	122	291
Commodities	Trading income	1	2
Total		$155	$526

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015		
	Amount of Pre-tax Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain Reclassified from AOCI into Income (Effective Portion)	Amount of Pre-tax Gain Recognized in OCI on Derivatives (Effective Portion)	Amount of Pre-tax Gain Reclassified from AOCI into Income (Effective Portion)	Classification of Pre-tax Gain Reclassified from AOCI into Income (Effective Portion)
Derivative instruments in cash flow hedging relationships:					
Interest rate contracts hedging floating rate loans [1]	$204	$47	$338	$126	Interest and fees on loans

[1] During the three and nine months ended September 30, 2015, the Company also reclassified $23 million and $61 million, respectively, of pre-tax gains from AOCI into net interest income. These gains related to hedging relationships that have been terminated or de-designated and are reclassified into earnings consistent with the pattern of net cash flows expected to be recognized.

(Dollars in millions)	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Amount of Gain/(Loss) on Derivatives Recognized in Income	Amount of Loss on Related Hedged Items Recognized in Income	Amount of Loss Recognized in Income on Hedges (Ineffective Portion)	Amount of Gain on Derivatives Recognized in Income	Amount of Loss on Related Hedged Items Recognized in Income	Amount of Loss Recognized in Income on Hedges (Ineffective Portion)
Derivative instruments in fair value hedging relationships:						
Interest rate contracts hedging fixed rate debt [1]	$—	($1)	($1)	$7	($8)	($1)
Interest rate contracts hedging brokered CDs [1]	—	—	—	—	—	—
Total	$—	($1)	($1)	$7	($8)	($1)

[1] Amounts are recognized in trading income in the Consolidated Statements of Income.

(Dollars in millions)	Classification of Gain/(Loss) Recognized in Income on Derivatives	Amount of Gain/(Loss) Recognized in Income on Derivatives During the Three Months Ended	Amount of Gain/(Loss) Recognized in Income on Derivatives During

		September 30, 2015	the Nine Months Ended September 30, 2015
Derivative instruments not designated as hedging instruments:			
Interest rate contracts hedging:			
MSRs	Mortgage servicing related income	$298	$223
LHFS, IRLCs	Mortgage production related income	(69)	(60)
LHFI	Other noninterest income	(2)	(2)
Trading activity	Trading income	5	46
Foreign exchange rate contracts hedging trading activity	Trading income	21	57
Credit contracts hedging:			
Loans	Other noninterest income	—	(1)
Trading activity	Trading income	6	19
Equity contracts hedging trading activity	Trading income	—	3
Other contracts:			
IRLCs	Mortgage production related income	58	151
Commodities	Trading income	1	2
Total		$318	$438

38

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 2, "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. Any payments, deliveries, or other transfers may be applied against each other and netted.

The following tables present total gross derivative instrument assets and liabilities at September 30, 2016 and December 31, 2015, 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, 2016						
Derivative instrument assets:						
Derivatives subject to master netting arrangement or similar arrangement	$5,703	$4,456	$1,247		$136	$1,111
Derivatives not subject to master netting arrangement or similar arrangement	79	—	79		—	79
Exchange traded derivatives	356	151	205		—	205
Total derivative instrument assets	$6,138	$4,607	$1,531	[1]	$136	$1,395
Derivative instrument liabilities:						
Derivatives subject to master netting arrangement or similar arrangement	$5,369	$5,158	$211		$33	$178
Derivatives not subject to master netting arrangement or similar arrangement	101	—	101		—	101
Exchange traded derivatives	151	151	—		—	—
Total derivative instrument liabilities	$5,621	$5,309	$312	[2]	$33	$279
December 31, 2015						
Derivative instrument assets:						
	$4,184	$3,156	$1,028		$66	$962

Derivatives subject to master netting arrangement or similar arrangement						
Derivatives not subject to master netting arrangement or similar arrangement	21	—	21		—	21
Exchange traded derivatives	260	157	103		—	103
Total derivative instrument assets	$4,465	$3,313	$1,152	[1]	$66	$1,086
Derivative instrument liabilities:						
Derivatives subject to master netting arrangement or similar arrangement	$4,162	$3,807	$355		$19	$336
Derivatives not subject to master netting arrangement or similar arrangement	105	—	105		—	105
Exchange traded derivatives	161	157	4		—	4
Total derivative instrument liabilities	$4,428	$3,964	$464	[2]	$19	$445

[1] At September 30, 2016, $1.5 billion, net of $675 million offsetting cash collateral, is recognized in trading assets and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2015, $1.2 billion, net of $397 million offsetting cash collateral, is recognized in trading assets and derivative instruments within the Company's Consolidated Balance Sheets.

[2] At September 30, 2016, $312 million, net of $1.4 billion offsetting cash collateral, is recognized in trading liabilities and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2015, $464 million, net of $1.0 billion offsetting cash collateral, is recognized in trading liabilities and derivative instruments within the Company's Consolidated Balance Sheets.

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.

The Company periodically writes CDS, which are agreements under which the Company receives premium payments from its counterparty for protection against an event of default of a reference asset. In the event of default under the CDS, the Company would either settle its obligation net in cash or make a cash payment to its counterparty and take delivery of the defaulted reference asset, from which the Company may recover all, a portion, or none of the credit loss, depending on the performance of the reference asset. Events of default, as defined in the CDS agreements, are generally triggered upon the failure to pay and similar events related to the issuer(s) of the reference asset. When the Company has written CDS, all written CDS contracts reference single name corporate credits or corporate credit indices. The Company generally enters into offsetting purchased CDS for the underlying reference asset, under which the Company pays a premium to its counterparty for protection against an event of default on the reference asset. The counterparties to these purchased CDS are generally of high creditworthiness and typically have ISDA master netting agreements in place that subject the CDS to master netting provisions, thereby mitigating the risk of non-payment to the Company. As such, at September 30, 2016, the Company did not have any material risk of making a non-recoverable payment on any written CDS. During 2016 and 2015, the only instances of default on written CDS were driven by credit indices with constituent credit default. In all cases where the Company made resulting cash payments to settle, the Company collected like amounts from the counterparties to the offsetting purchased CDS.

At September 30, 2016, written CDS had remaining terms of four years. There were no written CDS at December 31, 2015. The fair value of written CDS was $3 million at September 30, 2016. The maximum guarantees outstanding at September 30, 2016, as measured by the gross notional amount of written CDS, was $170 million, which represents risk reduction trades offsetting purchased CDS positions. At September 30, 2016 and December 31, 2015, the gross notional amounts of purchased CDS contracts designated as trading instruments were $305 million and $150 million, respectively. The fair values of purchased CDS were $5 million and $1 million at September 30, 2016 and December 31, 2015, respectively.

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 $2.2 billion of outstanding TRS notional balances at both September 30, 2016 and December 31, 2015. The fair values of these TRS assets and liabilities at September 30, 2016 were $25 million and $21 million, respectively, and related collateral held at September 30, 2016 was $474 million. The fair values of the TRS assets and liabilities at December 31, 2015 were $57 million and $52 million, respectively, and related collateral held at December 31, 2015 was $492 million. For additional information on the Company's TRS contracts, see Note 8, "Certain Transfers of Financial Assets and Variable Interest Entities," as well as Note 14, "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, 2016, the remaining terms on these risk participations generally ranged from zero to 31 years, with a weighted average term on the maximum estimated exposure of 9.0 years. At December 31, 2015, the remaining terms on these risk participations generally ranged from less than one year to eight years, with a weighted average term on the maximum estimated exposure of 5.6 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 $78 million and $55 million at September 30, 2016 and December 31, 2015, respectively. The fair values of the written risk participations were immaterial at both September 30, 2016 and December 31, 2015. The Company may enter into purchased risk participations to mitigate this written credit risk exposure to a derivative counterparty.

Cash Flow Hedging Instruments

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.

Interest rate swaps have been designated as hedging the exposure to the benchmark interest rate risk associated with floating rate loans. At September 30, 2016, the maturities for hedges of floating rate loans ranged from less than one year to six years, with the weighted average being 4.0 years. At December 31, 2015, the maturities for hedges of floating rate loans ranged from less than one year to seven years, with the weighted average being 3.3 years. These hedges have been highly effective in offsetting the designated risks, yielding an immaterial amount of ineffectiveness for the three and nine months ended September 30, 2016 and 2015. At September 30, 2016, $200 million of deferred net pre-tax gains 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 or de-designated 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.

Fair Value Hedging Instruments

The Company enters into interest rate swap agreements as part of the Company's risk management objectives for hedging its 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. Consistent with this objective, the Company reflects the accrued contractual interest on the hedged item and the related swaps as part of current period interest expense. There were no components of derivative gains or losses excluded in the Company's assessment of hedge effectiveness related to the fair value hedges.

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 related to:

- MSRs. The Company hedges these instruments with a combination of interest rate derivatives, including forward and option contracts, futures, and forward rate agreements.
- IRLCs and mortgage 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 Banking 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 currency contracts, and commodities. 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 macro-hedging strategies are focused on managing the Company's overall interest rate risk exposure that is not otherwise hedged by derivatives or in connection with specific hedges.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 14 - 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 MSRs and certain LHFS, LHFI, trading loans, brokered time deposits, and issuances of fixed rate debt.

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. This review is performed by different internal groups depending on the type of fair value asset or liability.

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. In making this determination the Company evaluates the number of recent transactions in either the primary or secondary market, whether or not price quotations are current, the nature of market participants, the variability of price quotations, the breadth of bid/ask spreads, declines in, or the absence of, new issuances, and the availability of public information. When a market is determined to be inactive, significant adjustments may be made to price indications when estimating fair value. In making these adjustments the Company seeks to employ assumptions a market participant would use to value the asset or liability, including consideration of illiquidity in the referenced market.

Notes to Consolidated Financial Statements (Unaudited), continued

Recurring Fair Value Measurements

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

	September 30, 2016 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	$547	$—	$—	$—	$547
Federal agency securities	—	259	—	—	259
U.S. states and political subdivisions	—	187	—	—	187
MBS - agency	—	883	—	—	883
CLO securities	—	1	—	—	1
Corporate and other debt securities	—	723	—	—	723
CP	—	202	—	—	202
Equity securities	51	—	—	—	51
Derivative instruments	356	5,703	79	(4,607)	1,531
Trading loans	—	2,660	—	—	2,660
Total trading assets and derivative instruments	954	10,618	79	(4,607)	7,044
Securities AFS:					
U.S. Treasury securities	4,983	—	—	—	4,983
Federal agency securities	—	334	—	—	334
U.S. states and political subdivisions	—	257	4	—	261
MBS - agency	—	23,316	—	—	23,316
MBS - non-agency residential	—	—	76	—	76
ABS	—	—	11	—	11
Corporate and other debt securities	—	31	5	—	36
Other equity securities [2]	104	—	551	—	655
Total securities AFS	5,087	23,938	647	—	29,672
Residential LHFS	—	3,023	3	—	3,026
LHFI	—	—	234	—	234
MSRs	—	—	1,119	—	1,119
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	918	—	—	—	918
MBS - agency	—	2	—	—	2
Corporate and other debt securities	—	252	—	—	252
Derivative instruments	152	5,454	15	(5,309)	312
Total trading liabilities and derivative instruments	1,070	5,708	15	(5,309)	1,484
Brokered time deposits	—	54	—	—	54

Long-term debt	—	963	—	—	963

[1] Amounts represent offsetting cash collateral received from, and paid to, the same derivative counterparties, and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists.
[2] Includes $104 million of mutual fund investments, $143 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, and $6 million of other.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	December 31, 2015 Fair Value Measurements Level 1	Level 2	Level 3	Netting Adjustments [1]	Assets/Liabilities at Fair Value
Assets					
Trading assets and derivative instruments:					
U.S. Treasury securities	$538	$—	$—	$—	$538
Federal agency securities	—	588	—	—	588
U.S. states and political subdivisions	—	30	—	—	30
MBS - agency	—	553	—	—	553
CLO securities	—	2	—	—	2
Corporate and other debt securities	—	379	89	—	468
CP	—	67	—	—	67
Equity securities	66	—	—	—	66
Derivative instruments	262	4,182	21	(3,313)	1,152
Trading loans	—	2,655	—	—	2,655
Total trading assets and derivative instruments	866	8,456	110	(3,313)	6,119
Securities AFS:					
U.S. Treasury securities	3,449	—	—	—	3,449
Federal agency securities	—	411	—	—	411
U.S. states and political subdivisions	—	159	5	—	164
MBS - agency	—	23,124	—	—	23,124
MBS - non-agency residential	—	—	94	—	94
ABS	—	—	12	—	12
Corporate and other debt securities	—	33	5	—	38
Other equity securities [2]	93	—	440	—	533
Total securities AFS	3,542	23,727	556	—	27,825
Residential LHFS	—	1,489	5	—	1,494
LHFI	—	—	257	—	257
MSRs	—	—	1,307	—	1,307
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	503	—	—	—	503
MBS - agency	—	37	—	—	37
Corporate and other debt securities	—	259	—	—	259
Derivative instruments	161	4,261	6	(3,964)	464
Total trading liabilities and derivative instruments	664	4,557	6	(3,964)	1,263
Long-term debt	—	973	—	—	973

Other liabilities [3]	—	—	23	—	23

[1] Amounts represent offsetting cash collateral received from, and paid to, the same derivative counterparties, and the impact of netting derivative assets and derivative liabilities when a legally enforceable master netting agreement or similar agreement exists.
[2] Includes $93 million of mutual fund investments, $32 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, and $6 million of other.
[3] Includes contingent consideration obligations related to acquisitions.

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

(Dollars in millions)	Fair Value at September 30, 2016	Aggregate UPB at September 30, 2016	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	$2,660	$2,607	$53
LHFS:			
Accruing	3,026	2,914	112
LHFI:			
Accruing	232	233	(1)
Nonaccrual	2	3	(1)
Liabilities:			
Brokered time deposits	54	54	—
Long-term debt	963	907	56

(Dollars in millions)	Fair Value at December 31, 2015	Aggregate UPB at December 31, 2015	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	$2,655	$2,605	$50
LHFS:			
Accruing	1,494	1,453	41
LHFI:			
Accruing	254	259	(5)
Nonaccrual	3	5	(2)
Liabilities:			
Long-term debt	973	907	66

Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present the change in fair value during the three and nine months ended September 30, 2016 and 2015 of financial instruments for which the FVO has been elected, as well as for MSRs. The tables do not reflect the change in fair value attributable to related economic hedges that the Company uses to mitigate market-related risks associated with the financial instruments. Generally, changes in the fair value of economic

hedges are recognized in trading income, mortgage production related income, mortgage servicing related income, or other noninterest income as appropriate, and are designed to partially offset the change in fair value of the financial instruments referenced in the tables below. The Company's economic hedging activities are deployed at both the instrument and portfolio level.

	Fair Value Gain/(Loss) for the Three Months Ended September 30, 2016 for Items Measured at Fair Value Pursuant to Election of the FVO					Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2016 for Items Measured at Fair Value Pursuant to Election of the FVO				
(Dollars in millions)	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings [2]	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings [2]
Assets:										
Trading loans	$6	$—	$—	$—	$6	$11	$—	$—	$—	$11
LHFS	—	15	—	—	15	—	92	—	—	92
LHFI	—	—	—	(1)	(1)	—	—	—	5	5
MSRs	—	—	(56)	—	(56)	—	2	(488)	—	(486)
Liabilities:										
Brokered time deposits	1	—	—	—	1	1	—	—	—	1
Long-term debt	7	—	—	—	7	10	—	—	—	10

[1] Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2016, income related to MSRs includes income recognized upon the sale of loans reported at LOCOM.

[2] Changes in fair value for the three and nine months ended September 30, 2016 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, brokered time deposits, and long-term debt that have been elected to be measured at fair value are recognized in interest income or interest expense in the Consolidated Statements of Income.

	Fair Value (Loss)/Gain for the Three Months Ended September 30, 2015 for Items Measured at Fair Value Pursuant to Election of the FVO	Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2015 for Items Measured at Fair Value Pursuant to Election of the FVO

(Dollars in millions)	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings [2]	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Earnings [2]
Assets:										
Trading loans	($1)	$—	$—	$—	($1)	$1	$—	$—	$—	$1
LHFS	—	20	—	—	20	—	32	—	—	32
LHFI	—	—	—	4	4	—	—	—	3	3
MSRs	—	—	(198)	—	(198)	—	1	(235)	—	(234)
Liabilities:										
Long-term debt	9	—	—	—	9	28	—	—	—	28

[1] Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2015, income related to MSRs includes income recognized upon the sale of loans reported at LOCOM.
[2] Changes in fair value for the three and nine months ended September 30, 2015 exclude accrued interest for the period then ended. Interest income or interest expense on trading loans, LHFS, LHFI, and long-term debt that have been elected to be measured at fair value are recognized in interest income or interest expense in the Consolidated Statements of Income.

The following is a discussion of the valuation techniques and inputs used in estimating fair value measurements for assets and liabilities measured at fair value on a recurring basis and classified as level 1, 2, and/or 3.

Trading Assets and Derivative Instruments and Securities Available for Sale

Unless otherwise indicated, trading assets are priced by the trading desk and securities AFS are valued by an independent third party pricing service.

Federal agency securities

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

U.S. states and political subdivisions

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

Level 3 AFS municipal securities at September 30, 2016 and December 31, 2015 includes an immaterial amount of bonds that are redeemable with the issuer at par and cannot be traded in the market. As such, no significant observable market data for these instruments is available; therefore, these securities are priced at par.

MBS – agency

Agency MBS includes pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae. Each security contains a guarantee by the issuing GSE or agency. For agency MBS, the Company estimated fair value based on pricing from observable trading activity for similar securities or from a third party pricing service; accordingly, the Company has classified these instruments as level 2.

MBS – non-agency residential

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

party pricing to determine the reasonableness of the information relative to changes in market data, such as any recent trades, information received from market participants and analysts, and/or changes in the underlying collateral performance. The Company continued to classify non-agency residential MBS as level 3, as the Company believes that available third party pricing relies on significant unobservable assumptions, as evidenced by a persistently wide bid-ask price range and variability in pricing from the pricing services, particularly for the vintage and exposures held by the Company.

CLO Securities

CLO preference share exposure is estimated at fair value based on pricing from observable trading activity for similar securities. Accordingly, the Company has classified these instruments as level 2.

Asset-Backed Securities

ABS classified as securities AFS includes purchased interests in third party securitizations collateralized by home equity loans and are valued based on third party pricing with significant unobservable assumptions; as such, they are classified as level 3.

Corporate and other debt securities

Corporate debt securities are comprised predominantly of senior and subordinate debt obligations of domestic corporations and are classified as level 2. Other debt securities classified as trading in level 3 at December 31, 2015 included bonds that were not actively traded in the market and for which valuation judgments were highly subjective due to limited observable market data. At December 31, 2015, the fair value of these level 3 bonds were estimated using market comparable bond index yields. These bonds were sold during the first quarter of 2016.

Other debt securities classified as AFS in level 3 at September 30, 2016 and December 31, 2015 include bonds that are redeemable with the issuer at par and cannot be traded in the market. As such, observable market data for these instruments is not available.

Commercial Paper

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

Equity securities

Equity securities classified as securities AFS include primarily FHLB of Atlanta stock and Federal Reserve Bank of Atlanta stock, which are redeemable with the issuer at cost and cannot be traded in the market. As such, observable market data for these instruments is not available and they are classified as level 3. The Company accounts for the stock based on industry guidance that requires these investments be carried at cost and evaluated for impairment based on the ultimate recovery of cost.

Derivative instruments

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

The Company's derivative instruments classified as level 2 are primarily transacted in the institutional dealer market and priced with observable market assumptions at a mid-market valuation point, with appropriate valuation adjustments for liquidity and credit risk. To this end, the Company has evaluated liquidity premiums required by market participants, as well as the credit risk of its counterparties and its own credit. See Note 13, “Derivative Financial Instruments,” for additional information on the Company's derivative instruments.

The Company's derivative instruments classified as level 3 include IRLCs that satisfy the criteria to be treated as derivative financial instruments. The fair value of IRLCs on residential LHFS, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These “pull-through” rates are based on the Company’s historical data and reflect the Company’s best estimate of the likelihood that a commitment will result in a closed loan. As pull-through rates increase, the fair value of IRLCs also increases. Servicing value is included in the fair value of IRLCs, and the fair value of servicing is determined by projecting cash flows, which are then discounted to estimate an expected fair value. The fair value of servicing is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets. During the three and nine months ended September 30, 2016, the Company transferred $116 million and $232 million, respectively, of net IRLCs out of level 3 as the associated loans were closed. During the three and nine months ended September 30, 2015, the Company transferred $41 million and $138 million, respectively, of net IRLCs out of level 3 as the associated loans were closed.

Trading loans

The Company engages in certain businesses whereby electing to measure loans at fair value for financial reporting aligns with the underlying business purpose. Specifically, loans included within this classification include trading loans that are: (i) made or acquired in connection with the Company’s TRS business, (ii) part of the loan sales and trading business within the Company’s Wholesale Banking segment, and (iii) backed by the SBA. See Note 8, "Certain Transfers of Financial Assets and Variable Interest Entities," and Note 13, “Derivative Financial Instruments,” for further discussion of this business. All of these

loans are classified as level 2 due to the nature of market data that the Company uses to estimate fair value.

The loans made in connection with the Company’s TRS business are short-term, senior demand loans supported by a pledge agreement granting first priority security interest to the Bank in all the assets held by the borrower, a VIE with assets comprised primarily of corporate loans. While these loans do not trade in the market, the Company believes that the par amount of the loans approximates fair value and no unobservable assumptions are used by the Company to value these loans. At both September 30, 2016 and December 31, 2015, the Company had outstanding $2.2 billion of these short-term loans measured at fair value.

The loans from the Company’s sales and trading business are commercial and corporate leveraged loans that are either traded in the market or for which similar loans trade. The Company elected to measure these loans at fair value since they are actively traded. For both the three and nine months ended September 30, 2016 and 2015, the Company recognized an immaterial amount of gains/(losses) in the Consolidated Statements of Income due to changes in fair value attributable to instrument-specific credit risk. The Company is able to obtain fair value estimates for substantially all of these loans through a third party valuation service that is broadly used by market participants. While most of the loans are traded in the market, the Company does not believe that trading activity qualifies the loans as level 1 instruments, as the volume and level of trading activity is subject to variability and the loans are not exchange-traded. At September 30, 2016 and December 31, 2015, $407 million and $356 million, respectively, of loans related to the Company's trading business were held in inventory.

SBA loans are similar to SBA securities discussed herein under "Federal agency securities," except for their legal form. In both cases, the Company trades instruments that are fully guaranteed by the U.S. government as to contractual principal and interest and there is sufficient observable trading activity upon which to base the estimate of fair value. As these SBA loans are fully guaranteed, the changes in fair value are attributable to factors other than instrument-specific credit risk.

Loans Held for Sale and Loans Held for Investment

Residential LHFS

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

LHFS classified as level 2 are primarily agency loans which trade in active secondary markets and are priced using current market pricing for similar securities, adjusted for servicing, interest rate risk, and credit risk. Non-agency residential mortgages are also included in level 2 LHFS. Transfers of certain mortgage LHFS into level 3 during the three and nine months ended September 30, 2016 and 2015 were largely due to borrower defaults or the identification of other loan defects impacting the marketability of the loans.

For residential loans that the Company has elected to measure at fair value, the Company recognized an immaterial amount of gains/(losses) in the Consolidated Statements of Income due to changes in fair value attributable to borrower-specific credit risk for both the three and nine months ended September 30, 2016 and 2015. In addition to borrower-specific credit risk, there are other more significant variables that drive changes in the fair values of the loans, including interest rates and general market conditions.

LHFI

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

Mortgage Servicing Rights

The Company records MSR assets at fair value using a discounted cash flow approach. The fair values of MSRs are impacted by a variety of factors, including prepayment assumptions, spreads, delinquency rates, contractually specified servicing fees, servicing costs, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties based on their review of the servicing portfolio, and comparisons to market transactions. Because these inputs are not transparent in market trades, MSRs are classified as level 3 assets. For additional information see Note 7, "Goodwill and Other Intangible Assets."

Liabilities

Trading liabilities and derivative instruments

Trading liabilities are comprised primarily of derivative contracts, but also include various contracts (primarily U.S. Treasury securities, corporate and other debt securities) that the Company uses in certain of its trading businesses. The Company's valuation methodologies for these derivative contracts and securities are consistent with those discussed within the corresponding sections herein under “Trading Assets and Derivative Instruments and Securities Available for Sale.”

During the second quarter of 2009, in connection with its sale of Visa Class B shares, the Company entered into a derivative contract whereby the ultimate cash payments received or paid, if any, under the contract are based on the ultimate resolution of litigation involving Visa. The value of the derivative was estimated based on the Company’s expectations regarding the ultimate resolution of that litigation, which involved a high degree of judgment and subjectivity. Accordingly, the value of the related derivative liability is classified as a level 3 instrument. See Note 12, "Guarantees," for a discussion of the valuation assumptions.

Brokered time deposits

The Company has elected to measure certain CDs at fair value. These debt instruments include embedded derivatives where the underlying is considered clearly and closely related to the host debt instrument. The Company elected to measure certain of these instruments at fair value to better align the economics of the CDs with the Company’s risk management strategies. The Company evaluated, on an instrument by instrument basis, whether a new issuance would be measured at fair value.

On January 1, 2016, the Company partially adopted ASU 2016-01, which requires changes in credit spreads for financial liabilities measured at fair value pursuant to a fair value option to be recognized in OCI. The impact to OCI is determined from the change in credit spreads above LIBOR swap spreads. For both the three and nine months ended September 30, 2016 the impact on AOCI due to changes in credit spreads was immaterial. For additional information on the Company's partial adoption of ASU 2016-01, see Note 1, "Significant Accounting Policies."

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

Long-term debt

The Company has elected to measure at fair value certain fixed rate issuances of public debt that are valued by obtaining price indications from a third party pricing service and utilizing broker quotes to corroborate the reasonableness of those marks. Additionally, information from market data of recent observable trades and indications from buy side investors, if available, are taken into consideration as additional support for the value. Due to the availability of this information, the Company determined that the appropriate classification for these debt issuances is level 2. The election to fair value certain fixed rate debt issuances was made to align the accounting for the debt with the accounting for offsetting derivative positions, without having to apply complex hedge accounting.

The Company utilizes derivative financial instruments to convert interest rates on its debt from fixed to floating rates. Prior to January 1, 2016, changes in the Company’s credit spreads for public debt measured at fair value impacted earnings. For the three and nine months ended September 30, 2015, the estimated earnings impact from changes in credit spreads above U.S.

Notes to Consolidated Financial Statements (Unaudited), continued

Treasury rates resulted in an immaterial amount of gains/(losses). On January 1, 2016, the Company partially adopted ASU 2016-01, which requires changes in credit spreads for certain financial instruments elected to be measured at fair value to be recognized in OCI. The impact to OCI for public debt measured at fair value is determined based on the change in credit spreads above LIBOR swap spreads. Upon adoption, the Company recognized a $5 million one-time, cumulative credit risk adjustment in AOCI to recognize the change in credit spreads that occurred prior to January 1, 2016. For the three and nine months ended September 30, 2016, the impact on AOCI from changes in credit spreads resulted in a loss of $3 million and $5 million, respectively, net of tax. For additional information on the Company's partial adoption of ASU 2016-01, see Note 1, "Significant Accounting Policies."

Other liabilities

At December 31, 2015 the Company’s other liabilities measured at fair value on a recurring basis included a contingent consideration obligation related to a prior business combination. Contingent consideration was adjusted to fair value until settled. As the assumptions used to measure fair value were based on internal metrics that were not observable in the market, the contingent consideration liability was classified as level 3. During the first quarter of 2016, the Company's contingent consideration obligation under the liability was settled and paid in full.

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

Level 3 Significant Unobservable Input Assumptions				
(Dollars in millions)	Fair value September 30, 2016	Valuation Technique	Unobservable Input [1]	Range (weighted average)
Assets				
Trading assets and derivative instruments:				
Derivative instruments, net [2]	$64	Internal model	Pull through rate	44-100% (77%)
			MSR value	18-147 bps (95 bps)
Securities AFS:				
U.S. states and political subdivisions	4	Cost	N/A	
MBS - non-agency residential	76	Third party pricing	N/A	
ABS	11	Third party pricing	N/A	
Corporate and other debt securities	5	Cost	N/A	
Other equity securities	551	Cost	N/A	
Residential LHFS	3	Monte Carlo/Discounted cash flow	Option adjusted spread	104-197 bps (125 bps)
			Conditional prepayment rate	4-26 CPR (16 CPR)
			Conditional default rate	0-2 CDR (0.6 CDR)
LHFI	232	Monte Carlo/Discounted cash flow	Option adjusted spread	62-784 bps (185 bps)

			Conditional prepayment rate	5-37 CPR (16 CPR)
			Conditional default rate	0-5 CDR (1.8 CDR)
	2	Collateral based pricing	Appraised value	NM [3]
MSRs	1,119	Monte Carlo/Discounted cash flow	Conditional prepayment rate	3-28 CPR (14 CPR)
			Option adjusted spread	0-124% (9%)

[1] For certain assets and liabilities where the Company utilizes third party pricing, the unobservable inputs and their ranges are not reasonably available, and therefore, have been noted as not applicable ("N/A").
[2] Represents the net of IRLC assets and liabilities entered into by the Mortgage Banking segment and includes the derivative liability associated with the Company's sale of Visa shares.
[3] Not meaningful.

Notes to Consolidated Financial Statements (Unaudited), continued

	Level 3 Significant Unobservable Input Assumptions			
(Dollars in millions)	Fair value December 31, 2015	Valuation Technique	Unobservable Input [1]	Range (weighted average)
Assets				
Trading assets and derivative instruments:				
Corporate and other debt securities	$89	Market comparables	Yield adjustment	126-447 bps (287 bps)
Derivative instruments, net [2]	15	Internal model	Pull through rate	24-100% (79%)
			MSR value	29-210 bps (103 bps)
Securities AFS:				
U.S. states and political subdivisions	5	Cost	N/A	
MBS - non-agency residential	94	Third party pricing	N/A	
ABS	12	Third party pricing	N/A	
Corporate and other debt securities	5	Cost	N/A	
Other equity securities	440	Cost	N/A	
Residential LHFS	5	Monte Carlo/Discounted cash flow	Option adjusted spread	104-197 bps (125 bps)
			Conditional prepayment rate	2-17 CPR (8 CPR)
			Conditional default rate	0-2 CDR (0.5 CDR)
LHFI	251	Monte Carlo/Discounted cash flow	Option adjusted spread	62-784 bps (193 bps)
			Conditional prepayment rate	5-36 CPR (14 CPR)
			Conditional default rate	0-5 CDR (1.7 CDR)
	6	Collateral based pricing	Appraised value	NM [4]
MSRs	1,307	Monte Carlo/Discounted cash flow	Conditional prepayment rate	2-21 CPR (10 CPR)
			Option adjusted spread	(5)-110% (8%)
Liabilities				
Other liabilities [3]	23	Internal model	Loan production volume	150% (150%)

[1] For certain assets and liabilities where the Company utilizes third party pricing, the unobservable inputs and their ranges are not reasonably available, and therefore, have been noted as not applicable ("N/A").
[2] Represents the net of IRLC assets and liabilities entered into by the Mortgage Banking segment and includes the derivative liability associated with the Company's sale of Visa shares.
[3] Input assumptions relate to the Company's contingent consideration obligations related to acquisitions. See Note 12, "Guarantees," for additional information.
[4] Not meaningful.

51

Notes to Consolidated Financial Statements (Unaudited), continued

The following tables present a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (other than servicing rights which are disclosed in Note 7, “Goodwill and Other Intangible Assets”). Transfers into and out of the fair value hierarchy levels are assumed to occur at the end

of the period in which the transfer occurred. None of the transfers into or out of level 3 have been the result of using alternative valuation approaches to estimate fair values. There were no transfers between level 1 and 2 during the three and nine months ended September 30, 2016 and 2015.

	Fair Value Measurements Using Significant Unobservable Inputs										
(Dollars in millions)	Beginning Balance July 1, 2016	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2016	Included in Earnings (held at September 30, 2016) [1]
Assets											
Trading assets:											
Derivative instruments, net	$60	$118 [2]	$—	$—	$—	$2	($116)	$—	$—	$64	$73 [2]
Securities AFS:											
U.S. states and political subdivisions	4	—	—	—	—	—	—	—	—	4	—
MBS - non-agency residential	83	—	—	—	—	(7)	—	—	—	76	—
ABS	11	—	1 [3]	—	—	(1)	—	—	—	11	—
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5	—
Other equity securities	610	—	—	—	—	(59)	—	—	—	551	—
Total securities AFS	713	—	1 [3]	—	—	(67)	—	—	—	647	—
Residential LHFS	4	—	—	—	(13)	—	(2)	14	—	3	—
LHFI	246	(2) [4]	—	—	—	(10)	(2)	2	—	234	(2) [4]

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs										
	Beginning Balance January 1, 2016	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2016	Included in Earnings (held at September 30, 2016 [1])
Assets											
Trading assets:											
Corporate and other debt securities	$89	($1) [5]	$—	$—	($88)	$—	$—	$—	$—	$—	$—
Derivative instruments, net	15	279 [2]	—	—	—	2	(232)	—	—	64	68 [2]
Total trading assets	104	278	—	—	(88)	2	(232)	—	—	64	68
Securities AFS:											
U.S. states and political subdivisions	5	—	—	—	—	(1)	—	—	—	4	—
MBS - non-agency residential	94	—	(1) [3]	—	—	(17)	—	—	—	76	—
ABS	12	—	1 [3]	—	—	(2)	—	—	—	11	—
Corporate and other debt securities	5	—	—	—	—	—	—	—	—	5	—
Other equity securities	440	—	1 [3]	276	—	(166)	—	—	—	551	—
Total securities AFS	556	—	1 [3]	276	—	(186)	—	—	—	647	—
Residential LHFS	5	—	—	—	(27)	—	(4)	31	(2)	3	—
LHFI	257	4 [4]	—	—	—	(32)	(1)	6	—	234	4 [4]
Liabilities											
Other liabilities	23	—	—	—	—	(23)	—	—	—	—	—

[1] Change in unrealized gains/(losses) included in earnings during the period related to financial assets still held at September 30, 2016.
[2] Includes issuances, fair value changes, and expirations and are recognized in mortgage production related income.
[3] Amounts recognized in OCI are included in change in net unrealized gains/(losses) on securities AFS, net of tax.
[4] Amounts are generally included in mortgage production related income; however, the mark on certain fair value loans is included in other noninterest income.
[5] Amounts included in earnings are recognized in trading income.

53

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs										
	Beginning Balance July 1, 2015	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2015	Included in Earnings (held at September 30, 2015 [1])
Assets											
Trading assets:											
Derivative instruments, net	$14	$58 [2]	$—	$—	$—	$1	($41)	$—	$—	$32	($1) [2]
Securities AFS:											
U.S. states and political subdivisions	5	—	—	—	—	—	—	—	—	5	—
MBS - non-agency residential	112	(1)	1 [3]	—	—	(10)	—	—	—	102	(1)
ABS	17	—	—	—	—	(2)	—	—	—	15	—
Corporate and other debt securities	3	—	—	5	—	(3)	—	—	—	5	—
Other equity securities	582	—	(2) [3]	—	—	(140)	—	—	—	440	—
Total securities AFS	719	(1)	(1)	5	—	(155)	—	—	—	567	(1)
Residential LHFS	2	—	—	—	(7)	—	(1)	8	—	2	—
LHFI	263	3 [4]	—	—	—	(8)	—	4	—	262	3 [4]
Liabilities											
Other liabilities	23	—	—	—	—	—	—	—	—	23	—

(Dollars in millions)	Fair Value Measurements Using Significant Unobservable Inputs										
	Beginning Balance January 1, 2015	Included in Earnings	OCI	Purchases	Sales	Settlements	Transfers to/from Other Balance Sheet Line Items	Transfers into Level 3	Transfers out of Level 3	Fair Value September 30, 2015	Included in Earnings (held at September 30, 2015 [1])
Assets											
Trading assets:											
Derivative instruments, net	$20	$148 [2]	$—	$—	$—	$2	($138)	$—	$—	$32	($5) [2]
Securities AFS:											
U.S. states and political subdivisions	12	—	—	—	—	(7)	—	—	—	5	—
MBS - non-agency residential	123	(1)	2 [3]	—	—	(22)	—	—	—	102	(1)
ABS	21	—	—	—	—	(6)	—	—	—	15	—
Corporate and other debt securities	5	—	—	5	—	(5)	—	—	—	5	—
Other equity securities	785	—	(2) [3]	104	—	(447)	—	—	—	440	—

Total securities AFS	946	(1)	—	109	—	(487)	—	—	—	567	(1)
Residential LHFS	1	—	—	—	(16)	—	(2)	19	—	2	—
LHFI	272	3 [4]	—	—	—	(32)	(1)	20	—	262	1 [4]
Liabilities											
Other liabilities	27	6 [5]	—	—	—	(10)	—	—	—	23	6 [5]

[1] Change in unrealized gains/(losses) included in earnings during the period related to financial assets/liabilities still held at September 30, 2015.
[2] Includes issuances, fair value changes, and expirations and are recognized in mortgage production related income.
[3] Amounts recognized in OCI are included in change in net unrealized gains/(losses) on securities AFS, net of tax.
[4] Amounts are generally included in mortgage production related income; however, the mark on certain fair value loans is included in trading income.
[5] Amounts included in earnings are recognized in other noninterest expense.

Notes to Consolidated Financial Statements (Unaudited), continued

Non-recurring Fair Value Measurements

The following tables present losses recognized on assets still held at period end, and measured at fair value on a non-recurring basis, for the three and nine months ended September 30, 2016 and the year ended December 31, 2015. Adjustments to fair value generally result from the application of LOCOM or through

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

(Dollars in millions)	September 30, 2016	Fair Value Measurements Level 1	Level 2	Level 3	Losses for the Three Months Ended September 30, 2016	Losses for the Nine Months Ended September 30, 2016
LHFI	$47	$—	$—	$47	$—	$—
OREO	15	—	—	15	(1)	(2)
Other assets	125	—	79	46	(13)	(37)

(Dollars in millions)	December 31, 2015	Fair Value Measurements Level 1	Level 2	Level 3	Losses for the Year Ended December 31, 2015
LHFS	$202	$—	$—	$202	($6)
LHFI	48	—	—	48	—
OREO	19	—	—	19	(4)
Other assets	36	—	29	7	(6)

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

Loans Held for Sale

At December 31, 2015, LHFS consisted of commercial loans that were valued using significant unobservable assumptions from comparably rated loans. As such, these loans are classified as level 3. The decline in LHFS compared to December 31, 2015 was due to the sale of $185 million of these loans in the second quarter of 2016 and the sale of the remaining $17 million in the third quarter of 2016.

Loans Held for Investment

At September 30, 2016 and December 31, 2015, LHFI consisted primarily of consumer and residential real estate loans discharged in Chapter 7 bankruptcy that had not been reaffirmed by the borrower, as well as nonperforming CRE loans for which specific reserves had been recognized. Cash proceeds from the sale of the underlying collateral is the expected source of repayment for a majority of these loans. Accordingly, the fair value of these loans is derived from the estimated fair value of the underlying collateral, incorporating market data if available. There were no gains/(losses) recognized during the three and nine months ended September 30, 2016 or during the year ended December 31, 2015, as the charge-offs related to these loans are a component of the ALLL. Due to the lack of market data for similar assets, all of these loans are classified as level 3.

OREO

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

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

Other Assets

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

Investments in cost and equity method investments are valued based on the expected remaining cash flows to be received from these assets discounted at a market rate that is commensurate with the expected risk, considering relevant Company-specific valuation multiples, where applicable. Based on the valuation methodology and associated unobservable inputs, these investments are classified as level 3. During the nine months ended September 30, 2016, the Company recognized impairment charges of $8 million on its equity investments. There were no impairment charges recognized on equity investments during the three months ended September 30, 2016 or during the year ended December 31, 2015.

Other repossessed assets comprises repossessed personal property that is measured at fair value less cost to sell. These assets are classified as level 3 as their fair value is determined based on a variety of subjective, unobservable factors. There were no losses recognized in earnings by the Company on other repossessed assets during the three and nine months ended September 30, 2016 or during the year ended December 31, 2015, as the impairment charges on repossessed personal property were a component of the ALLL.

The Company monitors the fair value of assets under operating leases where the Company is the lessor and recognizes impairment on the leased asset to the extent the carrying value is not recoverable and is greater than its fair value. Fair value is determined using collateral specific pricing digests, external appraisals, broker opinions, recent sales data from industry

Notes to Consolidated Financial Statements (Unaudited), continued

equipment dealers, and the discounted cash flows derived from the underlying lease agreement. As market data for similar assets and lease arrangements is available and used in the valuation, these assets are considered level 2. During both the three and nine months ended September 30, 2016, the Company recognized impairment charges of $12 million and $16 million, respectively, attributable to the fair value of various personal property under operating leases. During the year ended December 31, 2015, the Company recognized impairment charges of $6 million attributable to changes in the fair value of various personal property under operating leases.
The Company recognized impairment charges of $1 million and $8 million on branch properties during the three and nine

months ended September 30, 2016, respectively. These branches are classified as level 3, as their fair values were based on market comparables and broker opinions.
Land held for sale is recorded at the lesser of carrying value or fair value less cost to sell, and is considered level 3 as its fair value is determined based on market comparables and broker opinions. The Company recognized impairment charges of $5 million on land held for sale during the nine months ended September 30, 2016. There were no impairment charges recognized on land held for sale during the three months ended September 30, 2016, and an immaterial amount of impairment charges were recognized on land held for sale during the year ended December 31, 2015.

Fair Value of Financial Instruments
The carrying amounts and fair values of the Company’s financial instruments are as follows:

	September 30, 2016		Fair Value Measurements			
(Dollars in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Cash and cash equivalents	$9,740	$9,740	$9,740	$—	$—	(a)
Trading assets and derivative instruments	7,044	7,044	954	6,011	79	(b)
Securities AFS	29,672	29,672	5,087	23,938	647	(b)
LHFS	3,772	3,789	—	3,705	84	(c)
LHFI, net	139,789	138,557	—	273	138,284	(d)
Financial liabilities:						
Deposits	158,842	158,801	—	158,801	—	(e)
Short-term borrowings	4,899	4,899	—	4,899	—	(f)
Long-term debt	11,866	11,896	—	11,181	715	(f)
Trading liabilities and derivative instruments	1,484	1,484	1,070	399	15	(b)

	December 31, 2015		Fair Value Measurements			
(Dollars in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Cash and cash equivalents	$5,599	$5,599	$5,599	$—	$—	(a)
Trading assets and derivative instruments	6,119	6,119	866	5,143	110	(b)
Securities AFS	27,825	27,825	3,542	23,727	556	(b)
LHFS	1,838	1,842	—	1,803	39	(c)
LHFI, net	134,690	131,178	—	397	130,781	(d)

Financial liabilities:						
Deposits	149,830	149,889	—	149,889	—	(e)
Short-term borrowings	4,627	4,627	—	4,627	—	(f)
Long-term debt	8,462	8,374	—	7,772	602	(f)
Trading liabilities and derivative instruments	1,263	1,263	664	593	6	(b)

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

(a) Cash and cash equivalents are valued at their carrying amounts, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

(b) Trading assets and derivative instruments, securities AFS, and trading liabilities and derivative instruments that are classified as level 1 are valued based on quoted market prices. For those instruments classified as level 2 or 3, refer to the respective valuation discussions within this footnote.

(c) LHFS are generally valued based on observable current market prices or, if quoted market prices are not available, quoted market prices of similar instruments. Refer to the LHFS section within this footnote for further discussion. When valuation assumptions are not readily observable in the market, instruments are valued based on the best available data to approximate fair value. This data may be internally developed and considers risk premiums that a

56

market participant would require under then-current market conditions.

(d) LHFI fair values are based on a hypothetical exit price, which does not represent the estimated intrinsic value of the loan if held for investment. The assumptions used are expected to approximate those that a market participant purchasing the loans would use to value the loans, including a market risk premium and liquidity discount. Estimating the fair value of the loan portfolio when loan sales and trading markets are illiquid or nonexistent requires significant judgment.

Generally, the Company measures fair value for LHFI based on estimated future discounted cash flows using current origination rates for loans with similar terms and credit quality, which derived an estimated value of 102% and 101% on the loan portfolio's net carrying value at September 30, 2016 and December 31, 2015, respectively. The value derived from origination rates likely does not represent an exit price; therefore, an incremental market risk and liquidity discount was applied when estimating the fair value of these loans. The discounted value is a function of a market participant's required yield in the current environment and is not a reflection of the expected cumulative losses on the loans.

(e) Deposit liabilities with no defined maturity such as DDAs, NOW/money market accounts, and savings accounts have a fair value equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for CDs are estimated using a discounted cash flow approach that applies current interest rates to a schedule of aggregated expected maturities. The assumptions used in the discounted cash flow analysis are expected to approximate those that market participants would use in valuing deposits. The value of long-term relationships with depositors is not taken into

account in estimating fair values. Refer to the respective valuation section within this footnote for valuation information related to brokered time deposits that the Company measures at fair value as well as those that are carried at amortized cost.

(f) Fair values for short-term borrowings and certain long-term debt are based on quoted market prices for similar instruments or estimated discounted cash flows utilizing the Company's current incremental borrowing rate for similar types of instruments. Refer to the respective valuation section within this footnote for valuation information related to long-term debt that the Company measures at fair value. For level 3 debt, the terms are unique in nature or there are no similar instruments that can be used to value the instrument without using significant unobservable assumptions. In these situations, the Company reviews current borrowing rates along with the collateral levels that secure the debt in determining an appropriate fair value adjustment.

Unfunded loan commitments and letters of credit are not included in the table above. At September 30, 2016 and December 31, 2015, the Company had $65.0 billion and $66.2 billion, respectively, of unfunded commercial loan commitments and letters of credit. A reasonable estimate of the fair value of these instruments is the carrying value of deferred fees plus the related unfunded commitments reserve, which was a combined $72 million and $66 million at September 30, 2016 and December 31, 2015, respectively. No active trading market exists for these instruments, and the estimated fair value does not include value associated with the borrower relationship. The Company does not estimate the fair values of consumer unfunded lending commitments which can generally be canceled by providing notice to the borrower.

NOTE 15 – CONTINGENCIES

Litigation and Regulatory Matters

In the ordinary course of business, the Company and its subsidiaries are parties to numerous civil claims and lawsuits and subject to regulatory examinations, investigations, and requests for information. Some of these matters involve claims for substantial amounts. The Company's experience has shown that the damages alleged by plaintiffs or claimants are often overstated, based on unsubstantiated legal theories, unsupported by facts, and/or bear no relation to the ultimate award that a court might grant. Additionally, the outcome of litigation and regulatory matters and the timing of ultimate resolution are inherently difficult to predict. These factors make it difficult for the Company to provide a meaningful estimate of the range of reasonably possible outcomes of claims in the aggregate or by individual claim. However, on a case-by-case basis, reserves are established for those legal claims in which it is probable that a loss will be incurred and the amount of such loss can be reasonably estimated. The Company's financial statements at September 30, 2016 reflect the Company's current best estimate of probable losses associated with these matters, including costs to comply with various settlement agreements, where applicable.

The actual costs of resolving these claims may be substantially higher or lower than the amounts reserved.
For a limited number of legal matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of related reserves, if any. Management currently estimates these losses to range from $0 to approximately $190 million. This estimated range of reasonably possible losses represents the estimated possible losses over the life of such legal matters, which may span a currently indeterminable number of years, and is based on information available at September 30, 2016. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those matters for which an estimate is not possible are not included within this estimated range; therefore, this estimated range does not represent the Company’s maximum loss exposure. Based on current knowledge, it is the opinion of management that liabilities arising from legal claims in excess of the amounts currently reserved, if any, will not have a material impact on the Company’s financial condition, results of operations, or cash

flows. However, in light of the significant uncertainties involved in these matters and the large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's financial condition, results of operations, or cash flows for any given reporting period.

The following is a description of certain litigation and regulatory matters:

Card Association Antitrust Litigation

The Company is a defendant, along with Visa and MasterCard, as well as several other banks, in several antitrust lawsuits challenging their practices. For a discussion regarding the Company's involvement in this litigation matter, see Note 12, "Guarantees."

Lehman Brothers Holdings, Inc. Litigation

Beginning in October 2008, STRH, along with other underwriters and individuals, were named as defendants in several individual and putative class action complaints filed in the U.S. District Court for the Southern District of New York and state and federal courts in Arkansas, California, Texas, and Washington. Plaintiffs alleged violations of Sections 11 and 12 of the Securities Act of 1933 and/or state law for allegedly false and misleading disclosures in connection with various debt and preferred stock offerings of Lehman Brothers Holdings, Inc. ("Lehman Brothers") and sought unspecified damages. All cases were transferred for coordination to the multi-district litigation captioned In re Lehman Brothers Equity/Debt Securities Litigation pending in the U.S. District Court for the Southern District of New York. Defendants filed a motion to dismiss all claims asserted in the class action. On July 27, 2011, the District Court granted in part and denied in part the motion to dismiss the claims against STRH and the other underwriter defendants in the class action. A settlement with the class plaintiffs was approved by the Court and the class settlement approval process was completed. A number of individual lawsuits and smaller putative class actions remained following the class settlement. STRH settled two such individual actions. The other individual lawsuits were dismissed. In two of such dismissed individual actions, the plaintiffs were unable to appeal the dismissals of their claims until their claims against a third party were resolved. In one of these individual actions, the plaintiffs filed a notice of appeal to the Second Circuit Court of Appeals, but that appeal was denied on July 8, 2016. The plaintiff has filed a petition to appeal the decision to the U.S. Supreme Court. In the other individual action, no appeal has been filed.

Bickerstaff v. SunTrust Bank

This case was filed in the Fulton County State Court on July 12, 2010, and an amended complaint was filed on August 9, 2010. Plaintiff asserts that all overdraft fees charged to his account which related to debit card and ATM transactions are actually interest charges and therefore subject to the usury laws of Georgia. Plaintiff has brought claims for violations of civil and criminal usury laws, conversion, and money had and received, and purports to bring the action on behalf of all Georgia citizens who incurred such overdraft fees within the four years before the complaint was filed where the overdraft fee resulted in an

interest rate being charged in excess of the usury rate. The Bank filed a motion to compel arbitration and on March 16, 2012, the Court entered an order holding that the Bank's arbitration provision is enforceable but that the named plaintiff in the case had opted out of that provision pursuant to its terms. The Court explicitly stated that it was not ruling at that time on the question of whether the named plaintiff could have opted out for the putative class members. The Bank filed an appeal of this decision, but this appeal was dismissed based on a finding that the appeal was prematurely granted. On April 8, 2013, the plaintiff filed a motion for class certification and that motion was denied on February 19, 2014. Plaintiff appealed the denial of class certification and on September 8, 2015, the Georgia Supreme Court agreed to hear the appeal. On January 4, 2016, the Georgia Supreme Court heard oral argument on the appeal. On July 8, 2016, the Georgia Supreme Court reversed the Court of Appeals of Georgia and remanded the case for further proceedings.

Putative ERISA Class Actions

Company Stock Class Action

Beginning in July 2008, the Company and certain officers, directors, and employees of the Company were named in a putative class action alleging that they breached their fiduciary duties under ERISA by offering the Company's common stock as an investment option in the SunTrust Banks, Inc. 401(k) Plan (the “Plan”). The plaintiffs purport to represent all current and former Plan participants who held the Company stock in their Plan accounts from May 15, 2007 to March 30, 2011 and seek to recover alleged losses these participants supposedly incurred as a result of their investment in Company stock.

This case was originally filed in the U.S. District Court for the Southern District of Florida but was transferred to the U.S. District Court for the Northern District of Georgia, Atlanta Division, (the “District Court”) in November 2008. On October 26, 2009, an amended complaint was filed. On December 9, 2009, defendants filed a motion to dismiss the amended complaint. On October 25, 2010, the District Court granted in part and denied in part defendants' motion to dismiss the amended complaint.

On April 14, 2011, the U.S. Court of Appeals for the Eleventh Circuit (“the Circuit Court”) granted defendants and plaintiffs permission to pursue interlocutory review in separate appeals. The Circuit Court subsequently stayed these appeals pending decision of a separate appeal involving The Home Depot in which substantially similar issues are presented. On May 8, 2012, the Circuit Court decided that appeal in favor of The Home Depot. On March 5, 2013, the Circuit Court issued an order remanding the case to the District Court for further proceedings in light of its decision in The Home Depot case. On September 26, 2013, the District Court granted the defendants' motion to dismiss plaintiffs' claims. Plaintiffs filed an appeal of this decision in the Circuit Court. Subsequent to the filing of this appeal, the U.S. Supreme Court decided Fifth Third Bancorp v. Dudenhoeffer, which held that employee stock ownership plan fiduciaries receive no presumption of prudence with respect to employer stock plans. The Circuit Court remanded the case back to the District Court for further proceedings in light of Dudenhoeffer. On June 18, 2015, the Court entered an order granting in part and denying in part the Company's motion to dismiss. The discovery process has begun.

On August 17, 2016, the District Court entered an order that among other things granted certain of the plaintiffs' motion for class certification. According to the Order, the class is defined as "All persons, other than Defendants and members of their immediate families, who were participants in or beneficiaries of the SunTrust Banks, Inc. 401(k) Savings Plan (the "Plan") at any time between May 15, 2007 and March 30, 2011, inclusive (the "Class Period") and whose accounts included investments in SunTrust common stock ("SunTrust Stock") during that time period and who sustained a loss to their account as a result of the investment in SunTrust Stock."

On August 1, 2016, certain non-fiduciary defendants filed a motion for summary judgment as it relates to them, which was granted by the District Court on October 5, 2016.

Mutual Funds Class Actions

On March 11, 2011, the Company and certain officers, directors, and employees of the Company were named in a putative class action alleging that they breached their fiduciary duties under ERISA by offering certain STI Classic Mutual Funds as investment options in the Plan. The plaintiffs purport to represent all current and former Plan participants who held the STI Classic Mutual Funds in their Plan accounts from April 2002 through December 2010 and seek to recover alleged losses these Plan participants supposedly incurred as a result of their investment in the STI Classic Mutual Funds. This action is pending in the U.S. District Court for the Northern District of Georgia, Atlanta Division (the "District Court"). On June 6, 2011, plaintiffs filed an amended complaint, and, on June 20, 2011, defendants filed a motion to dismiss the amended complaint. On March 12, 2012, the Court granted in part and denied in part the motion to dismiss. The Company filed a subsequent motion to dismiss the remainder of the case on the ground that the Court lacked subject matter jurisdiction over the remaining claims. On October 30, 2012, the Court dismissed all claims in this action. Immediately thereafter, plaintiffs' counsel initiated a substantially similar lawsuit against the Company naming two new plaintiffs and also filed an appeal of the dismissal with the U.S. Court of Appeals for the Eleventh Circuit. The Company filed a motion to dismiss in the new action and this motion was granted. On February 26, 2014, the U.S. Court of Appeals for the Eleventh Circuit upheld the District Court's dismissal. On March 18, 2014, the plaintiffs' counsel filed a motion for reconsideration with the Eleventh Circuit. On August 26, 2014, plaintiffs in the original action filed a Motion for Consolidation of Appeals requesting that the Court consider this appeal jointly with the appeal in the second action. This motion was granted on October 9, 2014 and plaintiffs filed their consolidated appeal on December 16, 2014.

On June 27, 2014, the Company and certain current and former officers, directors, and employees of the Company were named in another putative class action alleging breach of fiduciary duties associated with the inclusion of STI Classic Mutual Funds as investment options in the Plan. This case, Brown, et al. v. SunTrust Banks, Inc., et al., was filed in the U.S. District Court for the District of Columbia. On September 3, 2014, the U.S. District Court for the District of Columbia issued an order transferring the case to the U.S. District Court for the Northern District of Georgia. On November 12, 2014, the Court

granted plaintiffs' motion to stay this case until the U.S. Supreme Court issued a decision in Tibble v. Edison International. On May 18, 2015, the U.S. Supreme Court decided Tibble and held that plan fiduciaries have a duty, separate and apart from investment selection, to monitor and remove imprudent investments.

After Tibble, the cases pending on appeal were remanded to the District Court. On March 25, 2016, a consolidated amended complaint was filed, consolidating all of these pending actions into one case. The Company filed an answer to the consolidated amended complaint on June 6, 2016 and discovery is ongoing.

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

This action was filed in the U.S. District Court for the Northern District of Georgia on July 24, 2013. Plaintiff alleges that SunTrust violates one or more of several patents held by plaintiff in connection with SunTrust's provision of online banking services and other systems and services. Plaintiff seeks damages for alleged patent infringement of an unspecified amount, as well as attorney's fees and expenses. The matter was stayed on October 7, 2014 pending inter partes review of a number of the claims asserted against SunTrust.

Consent Order with the Federal Reserve

On April 13, 2011, SunTrust, SunTrust Bank, and STM entered into a Consent Order with the FRB in which SunTrust, SunTrust Bank, and STM agreed to strengthen oversight of, and improve risk management, internal audit, and compliance programs concerning the residential mortgage loan servicing, loss mitigation, and foreclosure activities of STM.

On July 25, 2014, the FRB imposed a $160 million civil money penalty as a result of the FRB's review of the Company's residential mortgage loan servicing and foreclosure processing practices that preceded the Consent Order. The Company expects to satisfy the entirety of this assessed penalty by providing consumer relief and certain cash payments as contemplated by the settlement with the U.S. and the States Attorneys' General regarding certain mortgage servicing claims, discussed below at "United States Mortgage Servicing Settlement." SunTrust continues its engagement with the FRB to demonstrate compliance with its commitments under the Consent Order.

United States Mortgage Servicing Settlement

In the second quarter of 2014, STM and the U.S., through the DOJ, HUD, and Attorneys General for several states, reached a final settlement agreement related to the National Mortgage Servicing Settlement. The settlement agreement became effective on September 30, 2014 when the court entered the Consent Judgment. Pursuant to the settlements, STM made $50 million in cash payments and committed to provide $500 million of consumer relief by the fourth quarter of 2017 and to implement certain mortgage servicing standards. While subject to confirmation by the independent Office of Mortgage Settlement Oversight ("OMSO") appointed to review and certify compliance with the provisions of the settlement, the Company believes it has fulfilled its consumer relief commitments. STM also implemented all of the prescribed servicing standards within the required timeframes. Compliance with the servicing standards continues to be monitored, tested, and reported quarterly by an internal review group and semi-annually by the OMSO. As a result, the Company does not expect to incur additional costs in satisfying its consumer relief obligations or implementation of the servicing standards associated with the settlement.

DOJ Investigation of GSE Loan Origination Practices

In January 2014, STM received notice from the DOJ of an investigation regarding the origination and underwriting of single family residential mortgage loans sold by STM to Fannie Mae and Freddie Mac. The DOJ and STM have not yet engaged in any material dialogue about how this matter may proceed and no allegations have been raised against STM. STM continues to cooperate with the investigation.

Residential Funding Company, LLC v. SunTrust Mortgage, Inc.

STM has been named as a defendant in a complaint filed December 17, 2013 in the Southern District of New York by Residential Funding Company, LLC ("RFC"), a Chapter 11 debtor-affiliate of GMAC Mortgage, LLC, alleging breaches of representations and warranties made in connection with loan sales and seeking indemnification against losses allegedly suffered by RFC as a result of such alleged breaches. The case was transferred to the United States Bankruptcy Court for the Southern District of New York. The litigation remains active in the Bankruptcy Court and discovery has commenced.

SunTrust Mortgage Reinsurance Class Actions

STM and Twin Rivers Insurance Company ("Twin Rivers") have been named as defendants in two putative class actions alleging that the companies entered into illegal “captive reinsurance” arrangements with private mortgage insurers. More specifically, plaintiffs allege that SunTrust’s selection of private mortgage insurers who agree to reinsure with Twin Rivers certain loans referred to them by SunTrust results in illegal “kickbacks” in the form of the insurance premiums paid to Twin Rivers. Plaintiffs contend that this arrangement violates the Real Estate Settlement Procedures Act (“RESPA”) and results in unjust enrichment to the detriment of borrowers. The first of these cases, Thurmond, Christopher, et al. v. SunTrust Banks, Inc. et al., was filed in February 2011 in the U.S. District Court for the Eastern District of Pennsylvania. This case was stayed by the Court pending the outcome of Edwards v. First American Financial Corporation, a captive reinsurance case that was pending before the U.S. Supreme Court at the time. The second of these cases, Acosta, Lemuel & Maria Ventrella et al. v. SunTrust Bank, SunTrust Mortgage, Inc., et al., was filed in the U.S. District Court for the Central District of California in December 2011. This case was stayed pending a decision in the Edwards case also. In June 2012,

the U.S. Supreme Court withdrew its grant of certiorari in Edwards and, as a result, the stays in these cases were lifted. SunTrust has filed a motion to dismiss the Thurmond case which was granted in part and denied in part, allowing limited discovery surrounding the argument that the statute of limitations for certain claims should be equitably tolled. Thurmond has been stayed pending a ruling in a similar case currently before the Third Circuit. The Acosta plaintiffs have voluntarily dismissed their case.

United States Attorney’s Office for the Southern District of New York Foreclosure Expense Investigation

STM has been cooperating with the United States Attorney's Office for the Southern District of New York (the "Southern District") in a broad-based industry investigation regarding claims for foreclosure-related expenses charged by law firms in connection with the foreclosure of loans guaranteed or insured by Fannie Mae, Freddie Mac, or FHA. The investigation relates to a private litigant qui tam lawsuit filed under seal and remains in early stages. The Southern District has not yet advised STM how it will proceed in this matter. The Southern District and STM engaged in dialogue regarding potential resolution of this matter as part of the National Mortgage Servicing Settlement, but were unable to reach agreement.

Felix v. SunTrust Mortgage, Inc.

This putative class action was filed against STM on April 4, 2016. Plaintiff alleges that STM breaches its contract with borrowers when it collects interest on FHA loans at repayment because STM fails to use an approved FHA notice form. Plaintiff also alleges that STM violates the Georgia usury statute by collecting such interest. Plaintiff attempts to bring the breach of contract claim on behalf of all borrowers and the usury claim on behalf of Georgia borrowers. Plaintiff and STM reached a settlement of the action with the class, and the U.S. District Court for the Northern District of Georgia granted preliminary approval of the settlement on September 9, 2016. The settlement terms had an insignificant impact on the Company's financial position. A hearing on final approval has been scheduled for February 6, 2017.

Northern District of Georgia Investigation

On April 28, 2016, the Bank received a subpoena from the United States Attorney’s Office for the Northern District of Georgia in connection with an investigation pertaining to a suspected embezzlement by an employee of a SunTrust business client. The subpoena requests information regarding the Bank’s Anti-Money Laundering and Bank Secrecy Act compliance processes to detect such crimes by employees of business clients. The Company is cooperating with the investigation.

NOTE 16 - BUSINESS SEGMENT REPORTING

The Company measures business activity across three segments: Consumer Banking and Private Wealth Management, Wholesale Banking, and Mortgage Banking, with functional activities included in Corporate Other. Business segments are determined based on the products and services provided or the type of client served, and they reflect the manner in which financial information is evaluated by management. The following is a description of the segments and their primary businesses.

The Consumer Banking and Private Wealth Management segment is made up of three primary businesses:

- Consumer Banking provides services to consumers and branch-managed small business clients through an extensive network of traditional and in-store branches, ATMs, the internet (www.suntrust.com), mobile banking, and by telephone (1-800-SUNTRUST). Financial products and services offered to consumers and small business clients include deposits and payments, loans, brokerage, and various fee-based services. Discount/online and full-service brokerage products are offered to individual clients through STIS. Consumer Banking also serves as an entry point for clients and provides services for other lines of business.
- Consumer Lending offers an array of lending products to consumers and small business clients via the Company's Consumer Banking and Private Wealth Management businesses, through the internet (www.suntrust.com and www.lightstream.com), as well as through various national offices and partnerships. Products offered include home equity lines, personal credit lines and loans, direct auto, indirect auto, student lending, credit cards, and other lending products.
- PWM provides a full array of wealth management products and professional services to both individual and institutional clients including loans, deposits, brokerage, professional investment management, and trust services to clients seeking active management of their financial resources. Institutional clients are served by the Institutional Investment Solutions business. Discount/online and full-service brokerage products are offered to individual clients through STIS. PWM also includes GenSpring, which provides family office solutions to ultra-high net worth individuals and their families. Utilizing teams of multi-disciplinary specialists with expertise in investments, tax, accounting, estate planning, and other wealth management disciplines, GenSpring helps families manage and sustain wealth across multiple generations.

The Wholesale Banking segment is made up of four primary businesses:

- CIB delivers comprehensive capital markets solutions, including advisory, capital raising, and financial risk management, with the goal of serving the needs of both public and private companies in the Wholesale Banking segment and PWM business. Investment Banking and Corporate Banking teams within CIB serve clients across the nation, offering a full suite of traditional banking and investment banking products and services to companies

with annual revenues typically greater than $150 million. Investment Banking serves select industry segments including consumer and retail, energy, financial services, healthcare, industrials, and technology, media and communications. Corporate Banking serves clients across diversified industry sectors based on size, complexity, and frequency of capital markets issuance. Also managed within CIB is the Equipment Finance Group, which provides lease financing solutions (through SunTrust Equipment Finance & Leasing).

- Commercial & Business Banking offers an array of traditional banking products, including lending, cash management and investment banking solutions via STRH to commercial clients (generally clients with revenues between $1 million and $150 million), not-for-profit organizations, and governmental entities, as well as auto dealer financing (floor plan inventory financing). Also managed within Commercial & Business Banking is the Premium Assignment Corporation, which provides corporate insurance premium financing solutions.
- Commercial Real Estate provides a full range of financial solutions for commercial real estate developers, owners, and investors, including construction, mini-perm, and permanent real estate financing, as well as tailored financing and equity investment solutions via STRH. The institutional real estate team targets relationships with institutional advisors, private funds, and insurance companies and the regional team focuses on real estate owners and developers

through a regional delivery structure. Commercial Real Estate also offers tailored financing and equity investment solutions for community development and affordable housing projects through STCC, with particular expertise in Low Income Housing Tax Credits and New Market Tax Credits.

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

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

Corporate Other includes management of the Company’s investment securities portfolio, long-term debt, end user derivative instruments, short-term liquidity and funding activities, balance sheet risk management, and most real estate assets. Additionally, Corporate Other includes the Company's functional activities such as marketing, SunTrust online, human resources, finance, Enterprise Risk, legal and compliance, communications, procurement, enterprise information services, corporate real estate, and executive management.

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

- Net interest income-FTE – is reconciled from net interest income and is presented on an FTE basis to make income from tax-exempt assets comparable to other taxable products. Segment results reflect matched maturity funds transfer pricing, which ascribes credits or charges based on the economic value or cost created by assets and liabilities of each segment. Differences between these credits and charges are captured as reconciling items. The change in this variance is generally attributable to corporate balance sheet management strategies.
- Provision/(benefit) for credit losses – represents net charge-offs by segment combined with an allocation to the segments for the provision/(benefit) attributable to each segment's quarterly change in the ALLL and unfunded commitments reserve balances.
- Provision for income taxes-FTE – is calculated using a blended income tax rate for each segment. This calculation includes the impact of various adjustments, such as the reversal of the FTE gross up on tax-exempt assets, tax adjustments, and credits that are unique to each segment.

The difference between the calculated provision for income taxes at the segment level and the consolidated provision for income taxes is reported as reconciling items.

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

- Operational costs – expenses are charged to segments based on a methodical activity-based costing process, which also allocates residual expenses to the segments. Generally, recoveries of these costs are reported in Corporate Other.
- Support and overhead costs – expenses not directly attributable to a specific segment are allocated based on various drivers (number of equivalent employees, number of PCs/laptops, net revenue, etc.). Recoveries for these allocations are reported in Corporate Other.
- Sales and referral credits – segments may compensate another segment for referring or selling certain products. The majority of the revenue resides in the segment where the product is ultimately managed.

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

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2016 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:						
Average loans	$43,405	$71,634	$27,146	$74	($2)	$142,257
Average consumer and commercial deposits	95,924	55,921	3,374	157	(63)	155,313
Average total assets	49,085	85,772	31,202	32,480	2,937	201,476
Average total liabilities	96,492	61,541	3,744	15,351	(62)	177,066
Average total equity	—	—	—	—	24,410	24,410
Statements of Income:						
Net interest income	$721	$461	$111	$21	($6)	$1,308
FTE adjustment	—	33	—	1	—	34
Net interest income - FTE [1]	721	494	111	22	(6)	1,342
Provision/(benefit) for credit losses [2]	30	68	(1)	—	—	97
Net interest income after provision/(benefit) for credit losses - FTE	691	426	112	22	(6)	1,245
Total noninterest income	387	320	167	20	(5)	889
Total noninterest expense	790	427	196	1	(5)	1,409
Income before provision for income taxes - FTE	288	319	83	41	(6)	725
Provision for income taxes - FTE [3]	108	95	31	12	3	249
Net income including income attributable to noncontrolling interest	180	224	52	29	(9)	476
Net income attributable to noncontrolling interest	—	—	—	2	—	2
Net income	$180	$224	$52	$27	($9)	$474

(Dollars in millions)	Three Months Ended September 30, 2015 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:						
Average loans	$40,189	$67,291	$25,299	$69	($11)	$132,837
Average consumer and commercial deposits	91,039	51,194	2,918	104	(29)	145,226
Average total assets	45,887	80,067	29,280	29,895	3,212	188,341
Average total liabilities	91,689	56,627	3,290	13,362	(11)	164,957
Average total equity	—	—	—	—	23,384	23,384
Statements of Income:						
Net interest income	$688	$452	$123	$41	($93)	$1,211
FTE adjustment	—	35	—	1	—	36

Net interest income - FTE [1]	688	487	123	42	(93)	1,247
Provision/(benefit) for credit losses [2]	22	47	(38)	—	1	32
Net interest income after provision/(benefit) for credit losses - FTE	666	440	161	42	(94)	1,215
Total noninterest income	384	292	109	29	(3)	811
Total noninterest expense	730	383	153	1	(3)	1,264
Income before provision for income taxes - FTE	320	349	117	70	(94)	762
Provision for income taxes - FTE [3]	119	113	11	24	(44)	223
Net income including income attributable to noncontrolling interest	201	236	106	46	(50)	539
Net income attributable to noncontrolling interest	—	—	—	2	—	2
Net income	$201	$236	$106	$44	($50)	$537

[1] Presented on a matched maturity funds transfer price basis for the segments.
[2] Provision/(benefit) for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision/(benefit) attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.
[3] Includes regular income tax provision and taxable-equivalent income adjustment reversal.

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Nine Months Ended September 30, 2016 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:						
Average loans	$42,502	$71,499	$26,563	$66	($2)	$140,628
Average consumer and commercial deposits	95,389	54,564	2,896	122	(60)	152,911
Average total assets	48,190	85,402	30,178	31,510	2,333	197,613
Average total liabilities	95,975	60,295	3,274	14,019	(26)	173,537
Average total equity	—	—	—	—	24,076	24,076
Statements of Income:						
Net interest income	$2,124	$1,362	$334	$79	($22)	$3,877
FTE adjustment	—	103	—	2	—	105
Net interest income - FTE [1]	2,124	1,465	334	81	(22)	3,982
Provision/(benefit) for credit losses [2]	107	253	(17)	—	—	343
Net interest income after provision/(benefit) for credit losses - FTE	2,017	1,212	351	81	(22)	3,639
Total noninterest income	1,108	906	457	112	(14)	2,569
Total noninterest expense	2,293	1,253	547	(6)	(15)	4,072
Income before provision for income taxes - FTE	832	865	261	199	(21)	2,136
Provision for income taxes - FTE [3]	310	264	99	55	(12)	716
Net income including income attributable to noncontrolling interest	522	601	162	144	(9)	1,420
Net income attributable to noncontrolling interest	—	—	—	7	—	7
Net income	$522	$601	$162	$137	($9)	$1,413

(Dollars in millions)	Nine Months Ended September 30, 2015 Consumer Banking and Private Wealth Management	Wholesale Banking	Mortgage Banking	Corporate Other	Reconciling Items	Consolidated
Balance Sheets:						
Average loans	$40,539	$67,565	$24,847	$58	($9)	$133,000
Average consumer and commercial deposits	90,919	49,142	2,754	106	(52)	142,869
Average total assets	46,511	80,734	28,595	29,493	3,302	188,635
Average total liabilities	91,557	54,872	3,139	15,870	(69)	165,369
Average total equity	—	—	—	—	23,266	23,266
Statements of Income:						
Net interest income	$2,028	$1,328	$366	$106	($310)	$3,518
FTE adjustment	—	104	—	2	1	107

Net interest income - FTE [1]	2,028	1,432	366	108	(309)	3,625
Provision/(benefit) for credit losses [2]	101	73	(61)	—	1	114
Net interest income after provision/(benefit) for credit losses - FTE	1,927	1,359	427	108	(310)	3,511
Total noninterest income	1,136	914	346	118	(11)	2,503
Total noninterest expense	2,195	1,165	510	15	(13)	3,872
Income before provision for income taxes - FTE	868	1,108	263	211	(308)	2,142
Provision for income taxes - FTE [3]	323	371	44	75	(127)	686
Net income including income attributable to noncontrolling interest	545	737	219	136	(181)	1,456
Net income attributable to noncontrolling interest	—	—	—	7	—	7
Net income	$545	$737	$219	$129	($181)	$1,449

[1] Presented on a matched maturity funds transfer price basis for the segments.
[2] Provision/(benefit) for credit losses represents net charge-offs by segment combined with an allocation to the segments for the provision/(benefit) attributable to quarterly changes in the ALLL and unfunded commitment reserve balances.
[3] Includes regular income tax provision and taxable-equivalent income adjustment reversal.

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

(Dollars in millions)	Securities AFS	Derivative Instruments	Long-Term Debt	Employee Benefit Plans	Total
Three Months Ended September 30, 2016					
Balance, beginning of period	$550	$310	($7)	($620)	$233
Net unrealized losses arising during the period	(32)	(49)	(3)	—	(84)
Amounts reclassified to net income	—	(37)	—	3	(34)
Other comprehensive (loss)/income, net of tax	(32)	(86)	(3)	3	(118)
Balance, end of period	$518	$224	($10)	($617)	$115
Three Months Ended September 30, 2015					
Balance, beginning of period	$183	$107	$—	($584)	($294)
Net unrealized gains arising during the period	123	128	—	—	251
Amounts reclassified to net income	(4)	(44)	—	3	(45)
Other comprehensive income, net of tax	119	84	—	3	206
Balance, end of period	$302	$191	$—	($581)	($88)
Nine Months Ended September 30, 2016					
Balance, beginning of period	$135	$87	$—	($682)	($460)
Cumulative credit risk adjustment [1]	—	—	(5)	—	(5)
Net unrealized gains/(losses) arising during the period	386	256	(5)	—	637
Amounts reclassified to net income	(3)	(119)	—	65	(57)
Other comprehensive income/(loss), net of tax	383	137	(5)	65	580
Balance, end of period	$518	$224	($10)	($617)	$115