SUNTRUST BANKS INC
Form 10-Q
November 06, 2015

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, 2015

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 website, 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 30, 2015, 509,612,975 shares of the Registrant’s Common Stock, $1.00 par value, were outstanding.

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GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
ALCO — Asset/Liability Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
ASC — Accounting Standards Codification.
ASU — Accounting Standards Update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.
BCBS — Basel Committee on Banking Supervision.
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.
CET1 — Common Equity Tier 1 Capital.
CEO — Chief Executive Officer.
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.
CSA — Credit support annex.
CVA — Credit valuation adjustment.
DDA — Demand deposit account.
Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DOJ — Department of Justice.
DTA — Deferred tax asset.
DVA — Debit valuation adjustment.
EPS — Earnings per share.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.
Fannie Mae — Federal National Mortgage Association.
FASB — Financial Accounting Standards Board.
Freddie Mac — Federal Home Loan Mortgage Corporation.

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

Fitch — Fitch Ratings Ltd.
Form 8-K and other legacy mortgage-related items — Items disclosed in Form 8-Ks filed with the SEC on September 9, 2014 and July 3, 2014, and other legacy mortgage-related items.
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.
HAMP — Home Affordable Modification Program.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
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 Operations.
MI — Mortgage insurance.
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.
PWM — Private Wealth Management.
REIT — Real estate investment trust.
RidgeWorth — RidgeWorth Capital Management, Inc.

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.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.
STCC — SunTrust Community Capital, LLC.
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.
UTB — Unrecognized tax benefit.
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, 2015 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2015.

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SunTrust Banks, Inc.

Consolidated Statements of Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions and shares in thousands, except per share data) (Unaudited)	2015	2014	2015	2014
Interest Income				
Interest and fees on loans	$1,139	$1,152	$3,345	$3,464
Interest and fees on loans held for sale	20	30	66	61
Interest and dividends on securities available for sale	153	153	430	456
Trading account interest and other	21	18	61	55
Total interest income	1,333	1,353	3,902	4,036
Interest Expense				
Interest on deposits	54	54	165	180
Interest on long-term debt	60	74	196	198
Interest on other borrowings	8	10	23	29
Total interest expense	122	138	384	407
Net interest income	1,211	1,215	3,518	3,629
Provision for credit losses	32	93	114	268
Net interest income after provision for credit losses	1,179	1,122	3,404	3,361
Noninterest Income				
Service charges on deposit accounts	159	169	466	483
Other charges and fees	97	95	285	274
Card fees	83	81	247	239
Investment banking income	115	88	357	296
Trading income	31	46	140	141
Trust and investment management income	86	93	255	339
Retail investment services	77	76	229	224
Mortgage production related income	58	45	217	140
Mortgage servicing related income	40	44	113	143
Gain on sale of subsidiary	—	—	—	105
Net securities gains/(losses)	7	(9)	21	(11)
Other noninterest income	58	52	173	155
Total noninterest income	811	780	2,503	2,528
Noninterest Expense				
Employee compensation	641	649	1,926	1,967
Employee benefits	84	81	326	326
Outside processing and software	200	184	593	535
Net occupancy expense	86	84	255	254
Equipment expense	41	41	123	127
Regulatory assessments	32	29	104	109
Marketing and customer development	42	35	104	91
Credit and collection services	8	21	52	67
Consulting and legal fees	23	16	48	43
Operating losses	3	29	33	268
Amortization	9	7	22	14
Other noninterest expense	95	83	286	333

Total noninterest expense	1,264	1,259	3,872	4,134
Income before provision for income taxes	726	643	2,035	1,755
Provision for income taxes	187	67	579	364
Net income including income attributable to noncontrolling interest	539	576	1,456	1,391
Net income attributable to noncontrolling interest	2	—	7	11
Net income	$537	$576	$1,449	$1,380
Net income available to common shareholders	$519	$563	$1,396	$1,343
Net income per average common share:				
Diluted	$1.00	$1.06	$2.67	$2.51
Basic	1.01	1.07	2.70	2.54
Dividends declared per common share	0.24	0.20	0.68	0.50
Average common shares - diluted	518,677	533,230	522,634	535,222
Average common shares - basic	513,010	527,402	516,970	529,429

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2015	2014	2015	2014
Net income	$537	$576	$1,449	$1,380
Components of other comprehensive income/(loss):				
Change in net unrealized gains/(losses) on securities available for sale, net of tax of $70, ($21), $6, and $144, respectively	119	(37)	4	246
Change in net unrealized gains/(losses) on derivative instruments, net of tax of $50, ($48), $57, and ($98), respectively	84	(82)	94	(168)
Change related to employee benefit plans, net of tax of $1, $1, ($44), and $20, respectively	3	1	(64)	34
Total other comprehensive income/(loss), net of tax	206	(118)	34	112
Total comprehensive income	$743	$458	$1,483	$1,492

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands, except per share data)	September 30, 2015	December 31, 2014
Assets	(Unaudited)	
Cash and due from banks	$3,788	$7,047
Federal funds sold and securities borrowed or purchased under agreements to resell	1,105	1,160
Interest-bearing deposits in other banks	23	22
Cash and cash equivalents	4,916	8,229
Trading assets and derivative instruments [1]	6,537	6,202
Securities available for sale [2]	27,270	26,770
Loans held for sale ($1,883 and $1,892 at fair value at September 30, 2015 and December 31, 2014, respectively)	2,032	3,232
Loans [3] ($262 and $272 at fair value at September 30, 2015 and December 31, 2014, respectively)	133,560	133,112
Allowance for loan and lease losses	(1,786)	(1,937)
Net loans	131,774	131,175
Premises and equipment	1,430	1,508
Goodwill	6,337	6,337
Other intangible assets (MSRs at fair value: $1,262 and $1,206 at September 30, 2015 and December 31, 2014, respectively)	1,282	1,219
Other assets	5,458	5,656
Total assets	$187,036	$190,328
Liabilities and Shareholders' Equity		
Noninterest-bearing deposits	$41,487	$41,096
Interest-bearing deposits	104,884	99,471
Total deposits	146,371	140,567
Funds purchased	1,329	1,276
Securities sold under agreements to repurchase	1,536	2,276
Other short-term borrowings	1,077	5,634
Long-term debt [4] ($986 and $1,283 at fair value at September 30, 2015 and December 31, 2014, respectively)	8,444	13,022
Trading liabilities and derivative instruments	1,330	1,227
Other liabilities	3,285	3,321
Total liabilities	163,372	167,323
Preferred stock, no par value	1,225	1,225
Common stock, $1.00 par value	550	550
Additional paid-in capital	9,087	9,089
Retained earnings	14,341	13,295
Treasury stock, at cost, and other [5]	(1,451)	(1,032)
Accumulated other comprehensive loss, net of tax	(88)	(122)
Total shareholders' equity	23,664	23,005
Total liabilities and shareholders' equity	$187,036	$190,328
Common shares outstanding [6]	514,106	524,540
Common shares authorized	750,000	750,000
Preferred shares outstanding	12	12
Preferred shares authorized	50,000	50,000

Treasury shares of common stock	35,815	25,381
[1] Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	$1,152	$1,316
[2] Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral	—	369
[3] Includes loans of consolidated VIEs	256	288
[4] Includes debt of consolidated VIEs	270	302
[5] Includes noncontrolling interest	106	108
[6] Includes restricted shares	1,556	2,930

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Shareholders’ Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock and Other [1]	Accumulated Other Comprehensive (Loss)/Income	Total
Balance, January 1, 2014	$725	536	$550	$9,115	$11,936	($615)	($289)	$21,422
Net income	—	—	—	—	1,380	—	—	1,380
Other comprehensive income	—	—	—	—	—	—	112	112
Common stock dividends, $0.50 per share	—	—	—	—	(266)	—	—	(266)
Preferred stock dividends [2]	—	—	—	—	(28)	—	—	(28)
Acquisition of treasury stock	—	(9)	—	—	—	(348)	—	(348)
Exercise of stock options and stock compensation expense	—	—	—	(14)	—	15	—	1
Restricted stock activity	—	—	—	13	(2)	1	—	12
Amortization of restricted stock compensation	—	—	—	—	—	21	—	21
Change in equity related to the sale of subsidiary	—	—	—	(23)	—	(16)	—	(39)
Issuance of stock for employee benefit plans and other	—	—	—	(1)	—	3	—	2
Balance, September 30, 2014	$725	527	$550	$9,090	$13,020	($939)	($177)	$22,269
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)
Acquisition of treasury 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

[1] 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.
At September 30, 2014, includes ($1,015) million for treasury stock, ($27) million for the compensation element of restricted stock, and $103 million for noncontrolling interest.
[2] 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. For the nine months ended September 30, 2014, dividends were $3,044 per share for both Perpetual Preferred Stock Series A and B, and $4,406 per share for Perpetual Preferred Stock Series E.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2015	2014
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	$1,456	$1,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of subsidiary	—	(105)
Depreciation, amortization, and accretion	596	504
Origination of mortgage servicing rights	(185)	(137)
Provisions for credit losses and foreclosed property	122	286
Stock-based compensation	65	50
Excess tax benefits from stock-based compensation	(18)	(5)
Net securities (gains)/losses	(21)	11
Net gain on sale of loans held for sale, loans, and other assets	(249)	(239)
Net decrease/(increase) in loans held for sale	644	(139)
Net increase in trading assets	(183)	(1,088)
Net (increase)/decrease in other assets	(26)	189
Net decrease in other liabilities	(196)	(155)
Net cash provided by operating activities	2,005	563
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	4,621	2,788
Proceeds from sales of securities available for sale	2,708	793
Purchases of securities available for sale	(7,861)	(6,986)
Proceeds from sales of auction rate securities	—	59
Net increase in loans, including purchases of loans	(2,097)	(7,698)
Proceeds from sales of loans	2,048	3,029
Purchases of mortgage servicing rights	(113)	(109)
Capital expenditures	(74)	(96)
Payments related to acquisitions, including contingent consideration	(30)	(11)
Proceeds from sale of subsidiary	—	193
Proceeds from the sale of other real estate owned and other assets	179	279
Net cash used in investing activities	(619)	(7,759)
Cash Flows from Financing Activities		
Net increase in total deposits	5,804	6,748
Net (decrease)/increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	(5,244)	1,633
Proceeds from long-term debt	1,237	2,574
Repayments of long-term debt	(5,670)	(67)
Repurchase of common stock	(465)	(348)
Common and preferred dividends paid	(393)	(294)
Incentive compensation related activity	32	12
Net cash (used in)/provided by financing activities	(4,699)	10,258
Net (decrease)/increase in cash and cash equivalents	(3,313)	3,062
Cash and cash equivalents at beginning of period	8,229	5,263
Cash and cash equivalents at end of period	$4,916	$8,325

Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$726	$39
Loans transferred from loans to loans held for sale	1,734	3,183
Loans transferred from loans and loans held for sale to other real estate owned	52	113
Non-cash impact of the deconsolidation of CLO	—	282
Non-cash impact of debt assumed by purchaser in lease sale	129	29

See accompanying Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The unaudited consolidated financial statements 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 financial statements and accompanying notes. Actual results could vary

from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company evaluated subsequent events through the date its financial statements were issued.

These financial statements should be read in conjunction with the Company’s 2014 Annual Report on Form 10-K. In the third quarter of 2015, the Company elected to prospectively change the date of its annual goodwill impairment test from September 30 to October 1 to better align the timing of the test with the availability of key inputs. There have been no other significant changes to the Company’s accounting policies as disclosed in the 2014 Annual Report on Form 10-K.

Pending Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could have a material effect on the Company's financial statements:

Standard	Description	Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Not Yet Adopted			
ASU 2014-09, Revenue from Contracts with Customers	The ASU supersedes 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 ASU 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 ASU 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 permitted beginning January 1, 2017)	The Company is continuing to evaluate the alternative methods of adoption and the anticipated effects on the financial statements and related disclosures.
ASU 2015-02, Amendments to the Consolidation Analysis	The ASU rescinds the indefinite deferral of previous amendments to ASC Topic 810 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	January 1, 2016	The Company will adopt this ASU on a modified retrospective basis. The Company is continuing to evaluate the impact of this ASU on the financial statements and related

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.	disclosures; however, adoption is not expected to materially impact the Company's financial position, results of operations, or EPS.

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, 2015	December 31, 2014
Fed funds sold	$55	$38
Securities borrowed	221	290
Securities purchased under agreements to resell	829	832
Total Fed funds sold and securities borrowed or purchased under agreements to resell	$1,105	$1,160

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 agreement. At both September 30, 2015 and December 31, 2014, the total market value of collateral held was $1.1 billion, of which $219 million and $222 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:

	September 30, 2015	December 31, 2014		
(Dollars in millions)	Overnight and Continuous	Overnight and Continuous	Up to 30 days	Total
U.S. Treasury securities	$84	$376	$—	$376
Federal agency securities	223	231	—	231
MBS - agency	868	1,059	45	1,104
CP	37	238	—	238
Corporate and other debt securities	324	327	—	327
Total securities sold under agreements to repurchase	$1,536	$2,231	$45	$2,276

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. Under the terms of the MRA, all transactions between the Company and a 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 against obligations owed. Any payments, deliveries, or other transfers may be applied against each other and presented net on the Company's Consolidated Balance Sheets, provided criteria are met that permit balance sheet netting. At September 30, 2015 and December 31, 2014, there were no such transactions subject to a 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 presented in the Consolidated Balance Sheets to derive the aggregate collateral deficits by counterparty. 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, 2015						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,050	$—	$1,050	[1]	$1,043	$7
Financial liabilities:						
Securities sold under agreements to repurchase	1,536	—	1,536		1,536	—

December 31, 2014						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,122	$—	$1,122	[1]	$1,112	$10
Financial liabilities:						
Securities sold under agreements to repurchase	2,276	—	2,276		2,276	—

[1] Excludes $55 million and $38 million of Fed funds sold, which are not subject to a master netting agreement at September 30, 2015 and December 31, 2014, respectively.

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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 were as follows:

(Dollars in millions)	September 30, 2015	December 31, 2014
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	$443	$267
Federal agency securities	532	547
U.S. states and political subdivisions	40	42
MBS - agency	565	545
CLO securities	2	3
Corporate and other debt securities	390	509
CP	312	327
Equity securities	65	45
Derivative instruments [1]	1,449	1,307
Trading loans [2]	2,739	2,610
Total trading assets and derivative instruments	$6,537	$6,202
Trading Liabilities and Derivative Instruments:		
U.S. Treasury securities	$584	$485
MBS - agency	4	1
Corporate and other debt securities	177	279
Derivative instruments [1]	565	462
Total trading liabilities and derivative instruments	$1,330	$1,227

[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 products 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 its 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 and derivative instrument 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.
The Company has pledged $857 million and $1.1 billion of trading securities to secure $825 million and $1.1 billion of repurchase agreements at September 30, 2015 and December 31, 2014, respectively. Additionally, the Company has pledged $298 million and $202 million of trading securities to secure certain derivative agreements at September 30, 2015 and December 31, 2014, respectively, and has pledged $40 million of trading securities under

other arrangements at both September 30, 2015 and December 31, 2014.

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NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

(Dollars in millions)	September 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$3,020	$45	$—	$3,065
Federal agency securities	408	13	1	420
U.S. states and political subdivisions	167	7	—	174
MBS - agency	22,452	511	58	22,905
MBS - private	100	2	—	102
ABS	13	2	—	15
Corporate and other debt securities	36	2	—	38
Other equity securities [1]	551	1	1	551
Total securities AFS	$26,747	$583	$60	$27,270

(Dollars in millions)	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$1,913	$9	$1	$1,921
Federal agency securities	471	15	2	484
U.S. states and political subdivisions	200	9	—	209
MBS - agency	22,573	558	83	23,048
MBS - private	122	2	1	123
ABS	19	2	—	21
Corporate and other debt securities	38	3	—	41
Other equity securities [1]	921	2	—	923
Total securities AFS	$26,257	$600	$87	$26,770

[1] At September 30, 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, $111 million of mutual fund investments, and $6 million of other. At December 31, 2014, the fair value of other equity securities was comprised of the following: $376 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, $138 million of mutual fund investments, and $7 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)	2015	2014	2015	2014
Taxable interest	$143	$142	$397	$421
Tax-exempt interest	2	2	5	8
Dividends	8	9	28	27
Total interest and dividends	$153	$153	$430	$456

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $2.9 billion and $2.6 billion at September 30, 2015 and December 31, 2014, respectively.

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The amortized cost and fair value of investments in debt securities AFS at September 30, 2015, by estimated average life, are shown below. Receipt of cash flows may differ from estimated average lives and contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	Distribution of Maturities				
(Dollars in millions)	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	Total
Amortized Cost:					
U.S. Treasury securities	$25	$921	$2,074	$—	$3,020
Federal agency securities	159	109	14	126	408
U.S. states and political subdivisions	38	13	101	15	167
MBS - agency	2,462	11,098	3,756	5,136	22,452
MBS - private	3	89	8	—	100
ABS	—	12	1	—	13
Corporate and other debt securities	—	36	—	—	36
Total debt securities AFS	$2,687	$12,278	$5,954	$5,277	$26,196
Fair Value:					
U.S. Treasury securities	$25	$931	$2,109	$—	$3,065
Federal agency securities	163	116	14	127	420
U.S. states and political subdivisions	39	13	106	16	174
MBS - agency	2,605	11,391	3,772	5,137	22,905
MBS - private	3	91	8	—	102
ABS	—	13	2	—	15
Corporate and other debt securities	—	38	—	—	38
Total debt securities AFS	$2,835	$12,593	$6,011	$5,280	$26,719
Weighted average yield [1]	2.35 %	2.41 %	2.57 %	2.80 %	2.52 %

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

Securities AFS in an Unrealized Loss Position

The Company held certain investment securities AFS where amortized cost exceeded fair market value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market price of securities fluctuates. At September 30, 2015, 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 the Company's 2014 Annual Report on Form 10-K. The following tables show securities AFS in an unrealized loss position at period end.

	September 30, 2015					
	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:						
Federal agency securities	$33	$—	$35	$1	$68	$1
MBS - agency	3,996	35	982	23	4,978	58

ABS	—	—	9	—	9	—
Other equity securities	4	1	—	—	4	1
Total temporarily impaired securities AFS	4,033	36	1,026	24	5,059	60
OTTI securities AFS [1]:						
Total OTTI securities AFS	—	—	—	—	—	—
Total impaired securities AFS	$4,033	$36	$1,026	$24	$5,059	$60

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	December 31, 2014 Less than twelve months Fair Value	 Unrealized Losses [2]	 Twelve months or longer Fair Value	 Unrealized Losses [2]	 Total Fair Value	 Unrealized Losses [2]
Temporarily impaired securities AFS:						
U.S. Treasury securities	$150	$1	$—	$—	$150	$1
Federal agency securities	20	—	132	2	152	2
MBS - agency	2,347	6	4,911	77	7,258	83
ABS	—	—	14	—	14	—
Total temporarily impaired securities AFS	2,517	7	5,057	79	7,574	86
OTTI securities AFS [1]:						
MBS - private	69	1	—	—	69	1
Total OTTI securities AFS	69	1	—	—	69	1
Total impaired securities AFS	$2,586	$8	$5,057	$79	$7,643	$87

[1] Includes OTTI securities AFS for which credit losses have been recorded in earnings in current or prior periods.
[2] Unrealized losses less than $0.5 million are presented as zero within the table.

At September 30, 2015, unrealized losses on securities that have been in a temporarily impaired position for longer than twelve months included agency MBS, federal agency securities, and one ABS collateralized by 2004 vintage home equity loans. Unrealized losses on federal agency securities and agency MBS securities at September 30, 2015 were due to market interest rates being higher than the securities' stated yields. The ABS continues to receive timely principal and interest payments, and is evaluated quarterly for credit impairment. Cash flow analysis shows that the underlying collateral can withstand highly stressed loss assumptions without incurring a credit loss.
The portion of unrealized losses on OTTI securities that relates to factors other than credit is recorded in AOCI. Any unrealized losses related to credit impairment on these securities are determined through estimated cash flow analyses and are recorded in earnings.
Realized Gains and Losses and Other-Than-Temporarily Impaired Securities
Net securities gains/(losses) are comprised of gross realized gains, gross realized losses, and OTTI credit losses recognized in earnings. Gross realized gains of $11 million and $25 million were recognized for the three and nine months ended September 30, 2015, 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. For both the three and nine months ended September 30, 2014, gross realized gains of $3 million were recognized. Gross realized losses of $12 million and $13 million were recognized for the three and nine months ended September 30, 2014, respectively, and OTTI losses recognized in earnings were immaterial for the nine months ended September 30, 2014.

Credit impairment that is determined through the use of models is estimated using cash flows on security specific collateral and the transaction structure. Future expected credit losses are determined by 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. OTTI credit losses reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of these securities.
The Company continues to reduce existing exposure on OTTI securities primarily through paydowns. In certain instances, the amount of impairment losses recognized in earnings includes credit losses on debt securities that

exceeds the total unrealized losses, and as a result, the securities may have unrealized gains in AOCI relating to factors other than credit.

During the three and nine months ended September 30, 2015, credit impairment recognized on securities AFS still held at the end of each period was immaterial, all of which related to one private MBS with a fair value of approximately $22 million at September 30, 2015. Securities that gave rise to credit impairments recognized during the nine months ended September 30, 2014, consisted of one private MBS with a fair value of approximately $19 million at September 30, 2014. The accumulated balance of credit losses recognized in earnings on securities AFS held at period end was $25 million at both September 30, 2015 and 2014. 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.

NOTE 5 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	September 30, 2015	December 31, 2014
Commercial loans:		
C&I	$65,371	$65,440
CRE	6,168	6,741
Commercial construction	1,763	1,211
Total commercial loans	73,302	73,392
Residential loans:		
Residential mortgages - guaranteed	627	632
Residential mortgages - nonguaranteed [1]	24,351	23,443
Home equity products	13,416	14,264
Residential construction	394	436
Total residential loans	38,788	38,775
Consumer loans:		
Guaranteed student	4,588	4,827
Other direct	5,771	4,573
Indirect	10,119	10,644
Credit cards	992	901
Total consumer loans	21,470	20,945
LHFI	$133,560	$133,112
LHFS [2]	$2,032	$3,232

[1] Includes $262 million and $272 million of LHFI measured at fair value at September 30, 2015 and December 31, 2014, respectively.

[2] Includes $1.9 billion of LHFS measured at fair value at both September 30, 2015 and December 31, 2014.

During the three months ended September 30, 2015 and 2014, the Company transferred $38 million and $362 million in LHFI to LHFS, and $75 million and $19 million in LHFS to LHFI, respectively. Additionally, during the three months ended September 30, 2015 and 2014, the Company sold $178 million and $2.3 billion in loans and leases for gains of $9 million and $40 million, respectively.

During the nine months ended September 30, 2015 and 2014, the Company transferred $1.7 billion and $3.2 billion in LHFI to LHFS, and $726 million and $39 million in LHFS to LHFI, respectively. Additionally, during the nine months ended September 30, 2015 and 2014, the Company sold $2.0 billion and $3.0 billion in loans and leases for gains of $22 million and $71 million, respectively.

At September 30, 2015 and December 31, 2014, the Company had $23.3 billion and $26.5 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support $17.0 billion and $18.4 billion of available, unused borrowing capacity, respectively.

At September 30, 2015 and December 31, 2014, the Company had $32.0 billion and $31.2 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support $26.2 billion and $24.3 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at September 30, 2015 was used to support $408 million of long-term debt and $6.2 billion of letters of credit issued on the Company's behalf. At December 31, 2014, the available FHLB borrowing capacity was used to support $4.0 billion of long-term debt, $4.0 billion of short-term debt, and $7.9 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's risk rating system is 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 the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. 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 Accruing Criticized (which includes Special Mention and a portion of Adversely Classified) and Nonaccruing Criticized (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 collect all amounts due from those where full collection is less certain. 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 C&I loans at September 30, 2015 compared to December 31, 2014, as presented in the following risk rating table, was due to loans primarily in the energy industry vertical that were downgraded to substandard during the first nine months of 2015.

Notes to Consolidated Financial Statements (Unaudited), continued

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, 2015 and December 31, 2014, 32% and 28%, respectively, of the guaranteed residential loan portfolio was current with respect to payments. At September 30, 2015 and December 31, 2014, 81% and 79%, 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 shown in the tables below:

	Commercial Loans					
	C&I		CRE		Commercial Construction	
(Dollars in millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Risk rating:						
Pass	$63,826	$64,228	$6,033	$6,586	$1,739	$1,196
Criticized accruing	1,423	1,061	120	134	23	14
Criticized nonaccruing	122	151	15	21	1	1
Total	$65,371	$65,440	$6,168	$6,741	$1,763	$1,211

	Residential Loans [1]					
	Residential Mortgages - Nonguaranteed		Home Equity Products		Residential Construction	
(Dollars in millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Current FICO score range:						
700 and above	$19,936	$18,780	$10,897	$11,475	$321	$347
620 - 699	3,330	3,369	1,827	1,991	59	70
Below 620 [2]	1,085	1,294	692	798	14	19
Total	$24,351	$23,443	$13,416	$14,264	$394	$436

	Consumer Loans [3]					
	Other Direct		Indirect		Credit Cards	
(Dollars in millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Current FICO score range:						
700 and above	$5,180	$4,023	$7,053	$7,661	$690	$639
620 - 699	536	476	2,426	2,335	245	212
Below 620 [2]	55	74	640	648	57	50
Total	$5,771	$4,573	$10,119	$10,644	$992	$901

[1] Excludes $627 million and $632 million of guaranteed residential loans at September 30, 2015 and December 31, 2014, 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 $4.6 billion and $4.8 billion of guaranteed student loans at September 30, 2015 and December 31, 2014, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

The payment status for the LHFI portfolio is shown in the tables below:

	September 30, 2015				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$65,148	$89	$12	$122	$65,371
CRE	6,150	2	1	15	6,168
Commercial construction	1,762	—	—	1	1,763
Total commercial loans	73,060	91	13	138	73,302
Residential loans:					
Residential mortgages - guaranteed	200	51	376	—	627
Residential mortgages - nonguaranteed [1]	24,081	105	9	156	24,351
Home equity products	13,189	81	—	146	13,416
Residential construction	375	3	—	16	394
Total residential loans	37,845	240	385	318	38,788
Consumer loans:					
Guaranteed student	3,724	367	497	—	4,588
Other direct	5,742	22	3	4	5,771
Indirect	10,032	83	1	3	10,119
Credit cards	978	8	6	—	992
Total consumer loans	20,476	480	507	7	21,470
Total LHFI	$131,381	$811	$905	$463	$133,560

[1] Includes $262 million of loans measured at fair value, the majority of which were accruing current.
[2] Nonaccruing loans past due 90 days or more totaled $278 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

	December 31, 2014				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$65,246	$36	$7	$151	$65,440
CRE	6,716	3	1	21	6,741
Commercial construction	1,209	1	—	1	1,211
Total commercial loans	73,171	40	8	173	73,392
Residential loans:					
Residential mortgages - guaranteed	176	34	422	—	632
Residential mortgages - nonguaranteed [1]	23,067	108	14	254	23,443
Home equity products	13,989	101	—	174	14,264
Residential construction	402	7	—	27	436
Total residential loans	37,634	250	436	455	38,775
Consumer loans:					

Guaranteed student	3,801	425	601	—	4,827
Other direct	4,545	19	3	6	4,573
Indirect	10,537	104	3	—	10,644
Credit cards	887	8	6	—	901
Total consumer loans	19,770	556	613	6	20,945
Total LHFI	$130,575	$846	$1,057	$634	$133,112

[1] Includes $272 million of loans measured at fair value, the majority of which were accruing current.

[2] Nonaccruing loans past due 90 days or more totaled $388 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs and performing second lien loans which are classified as nonaccrual when the first lien loan is nonperforming.

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 tables below exclude guaranteed student loans and guaranteed residential mortgages for which there was nominal risk of principal loss.

(Dollars in millions)	September 30, 2015			December 31, 2014		
	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	$59	$49	$—	$70	$51	$—
CRE	11	9	—	12	11	—
Total commercial loans	70	58	—	82	62	—
Residential loans:						
Residential mortgages - nonguaranteed	431	326	—	592	425	—
Residential construction	24	9	—	31	9	—
Total residential loans	455	335	—	623	434	—
Impaired loans with an allowance recorded:						
Commercial loans:						
C&I	14	12	7	27	26	7
CRE	—	—	—	4	4	4
Total commercial loans	14	12	7	31	30	11
Residential loans:						
Residential mortgages - nonguaranteed	1,451	1,395	181	1,381	1,354	215
Home equity products	709	637	60	703	630	66
Residential construction	128	124	14	145	145	19
Total residential loans	2,288	2,156	255	2,229	2,129	300
Consumer loans:						
Other direct	11	11	1	13	13	1
Indirect	113	112	5	105	105	5
Credit cards	24	6	1	25	8	2
Total consumer loans	148	129	7	143	126	8
Total impaired loans	$2,975	$2,690	$269	$3,108	$2,781	$319

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

Included in the impaired loan balances above at both September 30, 2015 and December 31, 2014 were $2.5 billion of accruing TDRs at amortized cost, of which 97% and 96% were current, respectively. See Note 1, “Significant Accounting Policies,” to the Company's 2014 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			
	2015		2014		2015		2014	
(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	$51	$—	$65	$—	$53	$1	$68	$1
CRE	9	—	15	—	10	—	16	—
Total commercial loans	60	—	80	—	63	1	84	1
Residential loans:								
Residential mortgages - nonguaranteed	330	4	454	5	335	11	467	14
Residential construction	9	—	14	—	11	—	15	—
Total residential loans	339	4	468	5	346	11	482	14
Impaired loans with an allowance recorded:								
Commercial loans:								
C&I	20	—	45	—	23	1	46	1
CRE	—	—	10	—	—	—	9	—
Total commercial loans	20	—	55	—	23	1	55	1
Residential loans:								
Residential mortgages - nonguaranteed	1,393	17	1,467	18	1,396	52	1,443	59
Home equity products	640	7	668	7	646	21	662	20
Residential construction	124	2	164	2	125	6	162	6
Total residential loans	2,157	26	2,299	27	2,167	79	2,267	85
Consumer loans:								
Other direct	12	—	14	—	12	—	14	—
Indirect	114	1	116	1	119	4	110	4
Credit cards	6	—	10	—	7	—	11	1
Total consumer loans	132	1	140	1	138	4	135	5
Total impaired loans	$2,708	$31	$3,042	$33	$2,737	$96	$3,023	$106

[1] 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.
Of the interest income recognized during the three and nine months ended September 30, 2014, cash basis interest income was less than $1 million and $2 million, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NPAs are shown in the following table:

(Dollars in millions)	September 30, 2015	December 31, 2014
Nonaccrual/NPLs:		
Commercial loans:		
C&I	$122	$151
CRE	15	21
Commercial construction	1	1
Residential loans:		
Residential mortgages - nonguaranteed	156	254
Home equity products	146	174
Residential construction	16	27
Consumer loans:		
Other direct	4	6
Indirect	3	—
Total nonaccrual/NPLs [1]	463	634
OREO [2]	62	99
Other repossessed assets	7	9
Nonperforming LHFS	—	38
Total NPAs	$532	$780

[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 funds are received and the property is conveyed. The receivable amount related to proceeds due from the FHA or the VA totaled $50 million and $57 million at September 30, 2015 and December 31, 2014, 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, 2015 and December 31, 2014 was $99 million and $152 million, respectively, included in NPLs in the table above. 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, 2015 and

December 31, 2014 was $169 million and $194 million, of which $158 million and $179 million were insured by the FHA or the VA, respectively.
At September 30, 2015 and December 31, 2014, OREO was comprised of $50 million and $75 million of foreclosed residential real estate properties and $8 million and $16 million of foreclosed commercial real estate properties, respectively, with the remainder related to land and other properties.

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 otherwise considered. 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 both September 30, 2015 and December 31, 2014, the Company had an immaterial amount of commitments to lend additional funds to debtors whose terms have been modified in a TDR. The number and amortized cost of loans modified under the terms of a TDR by type of modification are shown in the following tables.

	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
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
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 typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and nine months ended September 30, 2015 was immaterial.

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended September 30, 2014 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	23	$—	$—	$8	$8
Residential loans:					
Residential mortgages - nonguaranteed	266	2	26	8	36
Home equity products	503	—	1	22	23
Residential construction	1	—	—	—	—
Consumer loans:					
Other direct	21	—	—	—	—
Indirect	638	—	—	12	12
Credit cards	123	—	1	—	1
Total TDRs	1,575	$2	$28	$50	$80

	Nine Months Ended September 30, 2014 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	66	$—	$—	$22	$22
CRE	4	3	—	3	6
Residential loans:					
Residential mortgages - nonguaranteed	944	8	105	38	151
Home equity products	1,407	—	6	59	65
Residential construction	11	—	1	—	1
Consumer loans:					
Other direct	59	—	—	1	1
Indirect	2,189	—	—	43	43
Credit cards	350	—	2	—	2
Total TDRs	5,030	$11	$114	$166	$291

[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 typically have had multiple concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during both the three and nine months ended September 30, 2014 was immaterial.

Notes to Consolidated Financial Statements (Unaudited), continued

For the three and nine months ended September 30, 2015, the table below represents defaults on loans that were first modified between the periods January 1, 2014 and September 30, 2015 that became 90 days or more delinquent or were charged-off during the period.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
(Dollars in millions)	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
C&I	13	$—	25	$1
Residential loans:				
Residential mortgages	25	3	80	12
Home equity products	33	2	95	4
Consumer loans:				
Other direct	2	—	3	—
Indirect	47	—	118	1
Credit cards	22	—	45	—
Total TDRs	142	$5	366	$18

For the three and nine months ended September 30, 2014, the table below represents defaults on loans that were first modified between the periods January 1, 2013 and September 30, 2014 that became 90 days or more delinquent or were charged-off during the period.

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
(Dollars in millions)	Number of Loans	Amortized Cost	Number of Loans	Amortized Cost
Commercial loans:				
C&I	30	$3	77	$8
Residential loans:				
Residential mortgages	46	6	135	16
Home equity products	28	1	75	4
Residential construction	—	—	6	—
Consumer loans:				
Other direct	3	—	8	—
Indirect	45	—	134	1
Credit cards	60	—	143	1
Total TDRs	212	$10	578	$30

The majority of loans that were modified and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of modification.

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 in the Southeastern and Mid-Atlantic regions of the U.S. The Company engages in limited international banking activities. The Company's total cross-border outstanding loans were $1.4 billion and $1.3 billion at September 30, 2015 and December 31, 2014, respectively.

With respect to collateral concentration, at September 30, 2015, the Company owned $38.8 billion in loans secured by residential real estate, representing 29% of total LHFI. Additionally, the Company had $10.6 billion in commitments to extend credit on home equity lines and $4.0 billion in mortgage loan commitments at September 30, 2015. At December 31, 2014, the Company owned $38.8 billion in loans secured by residential real estate, representing 29% of

total LHFI, and had $10.9 billion in commitments to extend credit on home equity lines and $3.3 billion in mortgage loan commitments. At both September 30, 2015 and December 31, 2014, 2% of residential loans owned were guaranteed by a federal agency or a GSE.

The following table presents loans in the residential mortgage portfolio that included a high original LTV ratio (in excess of 80%), an interest only feature, and/or a second lien position that may increase the Company's exposure to credit risk and result in a concentration of credit risk. At September 30, 2015 and December 31, 2014, borrowers' current weighted average FICO score on these loans was 744 and 738, respectively.

(Dollars in millions)	September 30, 2015	December 31, 2014
Interest only mortgages with MI or with combined original LTV ≤ 80% [1]	$1,892	$3,180
Interest only mortgages with no MI and with combined original LTV > 80% [1]	620	873
Total interest only mortgages [1]	2,512	4,053
Amortizing mortgages with combined original LTV > 80% and/or second liens [2]	8,154	7,368
Total mortgages with potential concentration of credit risk	$10,666	$11,421

[1] Comprised of first and/or second liens, primarily with an initial 10 year interest only period.

[2] Comprised of loans with no MI.

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)	2015	2014	2015	2014
Balance, beginning of period	$1,886	$2,046	$1,991	$2,094
Provision for loan losses	23	93	107	275
Provision/(benefit) for unfunded commitments	9	—	7	(7)
Loan charge-offs	(102)	(164)	(356)	(473)
Loan recoveries	31	36	98	122
Balance, end of period	$1,847	$2,011	$1,847	$2,011
Components:				
ALLL			$1,786	$1,968
Unfunded commitments reserve [1]			61	43
Allowance for credit losses			$1,847	$2,011

[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 and nine months ended September 30, 2015 and 2014 is presented in the following tables:

	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

	Three Months Ended September 30, 2014			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$958	$875	$170	$2,003
Provision for loan losses	25	34	34	93
Loan charge-offs	(26)	(104)	(34)	(164)
Loan recoveries	14	12	10	36
Balance, end of period	$971	$817	$180	$1,968

	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

	Nine Months Ended September 30, 2014			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$946	$930	$168	$2,044

Provision for loan losses	82	114	79	275
Loan charge-offs	(97)	(279)	(97)	(473)
Loan recoveries	40	52	30	122
Balance, end of period	$971	$817	$180	$1,968

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As discussed in Note 1, "Significant Accounting Policies," to the Company's 2014 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, 2015							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$70	$7	$2,491	$255	$129	$7	$2,690	$269
Collectively evaluated	73,232	1,006	36,035	346	21,341	165	130,608	1,517
Total evaluated	73,302	1,013	38,526	601	21,470	172	133,298	1,786
LHFI at fair value	—	—	262	—	—	—	262	—
Total LHFI	$73,302	$1,013	$38,788	$601	$21,470	$172	$133,560	$1,786

	December 31, 2014							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL	Carrying Value	Associated ALLL
Individually evaluated	$92	$11	$2,563	$300	$126	$8	$2,781	$319
Collectively evaluated	73,300	975	35,940	477	20,819	166	130,059	1,618
Total evaluated	73,392	986	38,503	777	20,945	174	132,840	1,937
LHFI at fair value	—	—	272	—	—	—	272	—
Total LHFI	$73,392	$986	$38,775	$777	$20,945	$174	$133,112	$1,937

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. In the third quarter of 2015, the Company performed a quantitative assessment of its goodwill and concluded that the fair values of its reporting units exceeded their respective carrying values. Additionally, in the third quarter of 2015, the Company elected to prospectively change the date of its annual goodwill impairment test from September 30 to October 1 to

better align the timing of the test with the availability of key inputs. See Note 1, "Significant Accounting Policies" to the Company's 2014 Annual Report on Form 10-K for additional information regarding the Company's goodwill accounting policy.

There were no changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2015. Changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2014 are as follows:

(Dollars in millions)	Consumer Banking and	Wholesale Banking	Total

	Private Wealth Management		
Balance, January 1, 2014	$4,262	$2,107	$6,369
Acquisition of Lantana Oil and Gas Partners, Inc.	—	8	8
Sale of RidgeWorth	—	(40)	(40)
Balance, September 30, 2014	$4,262	$2,075	$6,337

Other Intangible Assets

Changes in the carrying amounts of other intangible assets for the nine months ended September 30 are as follows:

(Dollars in millions)	MSRs - Fair Value	Other	Total
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
Balance, January 1, 2014	$1,300	$34	$1,334
Amortization [1]	—	(10)	(10)
Servicing rights originated	137	—	137
Servicing rights purchased	109	—	109
Changes in fair value:			
Due to changes in inputs and assumptions [2]	(117)	—	(117)
Other changes in fair value [3]	(123)	—	(123)
Servicing rights sold	(1)	—	(1)
Sale of RidgeWorth	—	(9)	(9)
Balance, September 30, 2014	$1,305	$15	$1,320

[1] Does not include amortization of tax credits for 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, 2015.

Servicing Rights

The Company 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, 2015 was $89 million and $254 million, respectively, and $81 million and $241 million for the three and nine months ended September 30, 2014, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At September 30, 2015 and December 31, 2014, the total UPB of mortgage loans serviced was $149.2 billion and $142.1 billion, respectively. Included in these amounts were $122.0 billion and $115.5 billion at September 30, 2015 and December 31, 2014, respectively, of loans serviced for third parties. The Company purchased MSRs on residential loans with a UPB of $10.3 billion during the nine months ended September 30, 2015, all of which are reflected in the UPB amounts above. The Company purchased MSRs on residential loans with a UPB of $9.0 billion during the nine months ended September 30, 2014. During the nine months ended September 30, 2015 and 2014, the Company sold MSRs on residential loans, at a price approximating their fair value, with a UPB of $590 million and $612 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.

Notes to Consolidated Financial Statements (Unaudited), continued

A summary of the key inputs used to estimate the fair value of the Company's MSRs at September 30, 2015 and December 31, 2014, 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, 2015		December 31, 2014	
Fair value of MSRs	$1,262		$1,206	
Prepayment rate assumption (annual)	11	%	11	%
Decline in fair value from 10% adverse change	$51		$46	
Decline in fair value from 20% adverse change	98		88	
Option adjusted spread (annual)	8	%	10	%
Decline in fair value from 10% adverse change	$55		$55	
Decline in fair value from 20% adverse change	105		105	
Weighted-average life (in years)	6.4		6.4	
Weighted-average coupon	4.1	%	4.2	%

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, 2015 was $2 million and $3 million, respectively, and is reported in other noninterest income in the Consolidated Statements of Income. There was no income earned on consumer loan servicing rights for the three and nine months ended September 30, 2014.
At September 30, 2015, the total UPB of consumer indirect loans serviced was $889 million, all of which were serviced for third parties. No consumer loan servicing rights were purchased or sold during the nine months ended September 30, 2015 and 2014.
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, 2015, both the amortized cost and the fair value of the Company's consumer loan servicing rights were $11 million.

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

Certain Transfers of Financial Assets and Related Variable
Interest Entities

The Company has transferred loans and securities in sale or securitization transactions in which the Company has, or had, continuing involvement such as owning certain beneficial interests and servicing rights. Cash receipts on interests held related to these transfers were $6 million and $14 million for the three and nine months ended September 30, 2015, and $2 million and $14 million for the three and nine months ended September 30, 2014, respectively. The servicing and management 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 the three and nine months ended September 30, 2015 and 2014. 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.

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

collateral manager fees. If the Company has a VI in an entity, it then evaluates whether or not it has both (1) the power to direct the activities that most significantly impact the economic performance of the VIE, and (2) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE to determine if the Company should consolidate the VIE. If the entity is not consolidated, then an evaluation of whether the transfer is a sale or a secured borrowing is necessary.

To determine whether a transfer should be accounted for as a sale, 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 these three conditions are met, then the transfer is accounted for as a sale.

No events occurred during the nine months ended September 30, 2015 that changed the Company's previous conclusions regarding whether it is the primary beneficiary of the VIEs described herein. Likewise, no events occurred during the nine months ended September 30, 2015 that changed the Company's sale accounting conclusion in regards to previously

transferred residential mortgage loans, indirect auto loans, student loans, or commercial and corporate loans.
Below is a summary of transfers of financial assets to VIEs for which the Company has retained some level of continuing involvement, which supplements Note 10, "Certain Transfers of Financial Assets and Variable Interest Entities," to the Consolidated Financial Statements in the Company's 2014 Annual Report on Form 10-K.

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 the GSEs noted above, which resulted in pre-tax net gains of $48 million and $50 million for the three months ended September 30, 2015 and 2014, respectively, and $171 million and $155 million for the nine months ended September 30, 2015 and 2014, respectively. Net gains on the sale of residential mortgage loans are recorded at inception of the associated IRLCs within mortgage production related income in the Consolidated Statements of Income. The net gains reflect the change in value of the loans resulting from changes in interest rates from the time the Company enters into the related IRLCs with borrowers, but do not include the results of hedging activities initiated by the Company to mitigate this market risk. See Note 13, “Derivative Financial Instruments,” for further discussion of the Company’s hedging activities. As the seller, the Company has made certain representations and warranties with respect to the originally transferred loans, including those transferred under Ginnie Mae, Fannie Mae, and Freddie Mac programs; these representations and warranties are discussed in Note 12, “Guarantees.”

In a limited number of securitizations, the Company has received securities in addition to cash (while also retaining servicing rights) in exchange for the transferred loans. The securities received are measured at fair value and classified as securities AFS. At September 30, 2015 and December 31, 2014, the fair value of securities received totaled $43 million and $55 million, respectively.

The Company evaluated its securitization entities, which were deemed VIEs, for potential consolidation. 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. However, 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 at September 30, 2015 and December 31, 2014, of the unconsolidated trusts in which the Company has a VI were $251 million and $288 million, respectively.

The Company’s maximum exposure to loss related to the unconsolidated residential mortgage loan VIEs in which it holds a VI is comprised of the loss of value of any interests it retains, and any repurchase obligations it incurs as a result of a breach of representations and warranties, discussed further in Note 12, “Guarantees.”

Commercial and Corporate Loans

The Company holds securities issued by CLO entities that own commercial leveraged loans and bonds, certain of which were transferred to the entities by the Company. These entities had estimated assets of $584 million and $704 million and estimated liabilities of $541 million and $654 million at September 30, 2015 and December 31, 2014, respectively. The Company's holdings include a preference share exposure valued at $2 million and $3 million at September 30, 2015 and December 31, 2014, respectively, and a senior interest exposure valued at $11 million and $18 million at September 30, 2015 and December 31, 2014, respectively. The Company has determined that the CLO 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.

Consumer Loans

Guaranteed Student Loans

During 2006, the Company 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 since it has the power to direct the activities that most significantly impact the economic performance of the VIE, and has the obligation to absorb losses and the right to receive benefits that could potentially be significant. At September 30, 2015 and December 31, 2014, the Company’s Consolidated Balance Sheets reflected $273 million and $306 million, respectively, of assets held by the securitization entity and $270 million and $302 million, respectively, of debt issued by the entity.

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%. Losses in excess of the government guarantee 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 securitization entity has recourse to the Company, which functions as the master servicer; the Company may be required to repurchase the defaulting loan(s) from the securitization entity 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 very limited cases, absorbed by the Company.

Indirect Auto Loans

In June 2015, the Company transferred indirect auto loans to a securitization entity 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, which was determined to be a VIE. Although the Company has the power to direct the activities that most significantly impact the economic performance of the VIE through its

servicing rights, it was determined that this entity should not be consolidated since the Company does not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.
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 nine months ended September 30, 2015, recorded within other noninterest income in the Consolidated Statements of Income. Additional details regarding the servicing asset recognized in this transaction can be found in Note 7, "Goodwill and Other Intangible Assets."
To the extent that any 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 securitization entity has recourse to the Company whereby 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 and warranties and/or a breach of the Company's servicing obligations, and any resulting potential losses suffered by the securitization entity that the Company may be liable for, the amount of which would be limited to the initial UPB of transferred loans and the carrying value of the related servicing asset.

The Company's managed loans, including portfolio loans as well as securitized loans, are presented in the following table by portfolio balance and delinquency (accruing loans 90 days or more past due and all nonaccrual loans) at September 30, 2015 and December 31, 2014, as well as related net charge-offs for the three and nine months ended September 30, 2015 and 2014.

	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, 2015	December 31, 2014	September 30, 2015	December 31, 2014	2015	2014	2015	2014
Portfolio LHFI by type:								
Commercial	$73,302	$73,392	$151	$181	$13	$12	$47	$57
Residential	38,788	38,775	703	891	36	92	146	227
Consumer	21,470	20,945	514	619	22	24	65	67
Total portfolio LHFI	133,560	133,112	1,368	1,691	71	128	258	351
Managed securitized loans by type:								
Residential	117,774	110,591	135 [3]	183 [3]	4	6	10	13
Consumer	889	—	1	—	1	—	1	—
Total managed securitized loans	118,663	110,591	136	183	5	6	11	13
Managed unsecuritized loans	4,238	4,943	587	705	—	—	—	—
Total managed loans	$256,461	$248,646	$2,091	$2,579	$76	$134	$269	$364

[1] Excludes $2.0 billion and $3.2 billion of LHFS at September 30, 2015 and December 31, 2014, respectively.
[2] Excludes $1 million and $39 million of past due LHFS at September 30, 2015 and December 31, 2014, respectively.
[3] Excludes loans that have completed the foreclosure or short sale process (i.e., involuntary prepayments).

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 September 30, 2015 and December 31, 2014, the outstanding notional amounts of TRS contracts that VIEs entered into with the Company totaled $2.4 billion and $2.3 billion, respectively, and the Company's related senior financing outstanding to VIEs were also $2.4 billion and $2.3 billion, respectively. 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 TRS contracts with third parties with the same outstanding notional amounts. The notional amounts of the TRS contracts with the VIEs represent the Company’s maximum exposure to loss, although such exposure to loss has been mitigated via the TRS contracts with third parties. 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 2014 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. The Company sold properties with a carrying value of $72 million for gains of $19 million during the nine months ended September 30, 2015. No properties were sold during the third quarter of 2015 and the remaining properties held for sale at September 30, 2015 were immaterial. One property was sold during the three and nine months ended September 30, 2014 for an immaterial gain.

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 requirements 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 losses attributable to operating deficits, construction deficits, and tax credit allocation deficits. Assets of $1.9 billion and $1.6 billion in these partnerships were not included in the Consolidated Balance Sheets at September 30, 2015 and December 31, 2014, respectively. The Company's limited partner interests had carrying values of $552 million and $363 million at September 30, 2015 and December 31, 2014, respectively, and are recorded in other assets in the Company’s Consolidated Balance Sheets. The Company’s maximum exposure to loss for these investments totaled $1.1 billion and $910 million at September 30, 2015 and December 31, 2014, respectively. The Company’s maximum exposure to loss would result from the loss of its limited partner investments along with $396 million and $412 million of loans, interest-rate swap fair value exposures, or letters of credit issued by the Company to the entities at September 30, 2015 and December 31, 2014, respectively. The difference between the maximum exposure to loss and the investment and loan balances is primarily attributable to the unfunded equity commitments. Unfunded equity commitments are amounts that the Company has committed to the entities upon the entities meeting certain conditions. If these conditions are met, the Company will invest these additional amounts in the entities.

The Company also owns noncontrolling interests in funds whose purpose is to invest in community developments. At

September 30, 2015 and December 31, 2014, the Company's investment in these funds totaled $130 million and $113 million, respectively, and the Company's maximum exposure to loss on its equity investments, which is comprised of its investments in the funds plus any additional unfunded equity commitments, was $255 million and $236 million, respectively.

During the three months ended September 30, 2015 and 2014, the Company recognized $18 million and $15 million of tax credits for qualified affordable housing projects, and $17 million and $14 million of amortization on qualified affordable housing projects in the provision for income taxes, respectively. During the nine months ended September 30, 2015 and 2014, the Company recognized $46 million and $45 million of tax credits for qualified affordable housing projects, and $45 million and $41 million of amortization on qualified affordable housing projects in the provision for income taxes, respectively. During the three and nine months ended September 30, 2015, the Company recorded $8 million and $18 million, respectively, of amortization expense (a component of noninterest expense) related to community development investments not within the scope of the accounting guidance for investments in qualified affordable housing projects. During the three and nine months ended September 30, 2014, the Company recorded $4 million and $9 million, respectively, of amortization related to these non-qualified investments; $0 and $5 million was recorded within other noninterest expense on the Company's Consolidated Statements of Income for the three and nine months ended September 30, 2014, respectively, and $4 million was recorded within amortization expense for both the three and nine months ended September 30, 2014.

NOTE 9 – NET INCOME PER COMMON SHARE

Equivalent shares of 14 million and 15 million related to common stock options and common stock warrants outstanding at September 30, 2015 and 2014, respectively, were excluded from the computations of diluted net income per average common share because they would have been anti-dilutive.

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 below.

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars and shares in millions, except per share data)	2015	2014	2015	2014
Net income	$537	$576	$1,449	$1,380
Preferred dividends	(16)	(9)	(48)	(28)
Dividends and undistributed earnings allocated to unvested shares	(2)	(4)	(5)	(9)
Net income available to common shareholders	$519	$563	$1,396	$1,343
Average basic common shares	513	527	517	529
Effect of dilutive securities:				
Stock options	2	2	2	2
Restricted stock, RSUs, and warrants	4	4	4	4
Average diluted common shares	519	533	523	535
Net income per average common share - diluted	$1.00	$1.06	$2.67	$2.51
Net income per average common share - basic	$1.01	$1.07	$2.70	$2.54

NOTE 10 - INCOME TAXES

For the three months ended September 30, 2015 and 2014, the provision for income taxes was $187 million and $67 million, representing effective tax rates of 26% and 10%, respectively. The effective tax rates for the three months ended September 30, 2015 and 2014 were favorably impacted by discrete income tax benefits of $35 million and $130 million, respectively. For the nine months ended September 30, 2015 and 2014, the provision for income taxes was $579 million and $364 million, representing effective tax rates of 29% and 21%, 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, 2015 and 2014 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.

The Company's liability for UTBs was $152 million and $210 million at September 30, 2015 and December 31, 2014, respectively. The decrease in the liability for UTBs during the nine months ended September 30, 2015 was primarily due to completion of a tax authority examination. It is reasonably possible that the liability for UTBs could decrease by as much as $65 million during the next 12 months due to completion of tax authority examinations. It is uncertain how much, if any, of this potential decrease will impact the Company’s effective tax rate.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company sponsors incentive programs which are delivered through various plans, such as defined contribution, noncontributory pension, and other postretirement benefit plans, as well as through the issuance of RSUs, restricted stock, and

LTI cash. See Note 15, “Employee Benefit Plans,” to the Company's 2014 Annual Report on Form 10-K for further information regarding the employee benefit plans.

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)	2015	2014	2015	2014
Stock options	$—	$—	$1	$1
Restricted stock	4	7	13	21
Performance stock units	5	4	21	9
RSUs	7	5	35	27
Total stock-based compensation	$16	$16	$70	$58
Stock-based compensation tax benefit	$6	$6	$27	$22

Components of net periodic benefit related to the Company's pension and other postretirement benefits plans consisted of the following:

	Pension Benefits [1]		Other Postretirement Benefits	
	Three Months Ended September	Nine Months Ended September	Three Months Ended September	Nine Months Ended September

(Dollars in millions)	30 2015	2014	30 2015	2014	30 2015	2014	30 2015	2014
Service cost	$2	$2	$4	$4	$—	$—	$—	$—
Interest cost	29	31	87	93	1	1	2	2
Expected return on plan assets	(52)	(50)	(155)	(150)	(2)	(1)	(4)	(4)
Amortization of prior service credit	—	—	—	—	(1)	(2)	(4)	(4)
Amortization of actuarial loss	5	4	16	12	—	—	—	—
Net periodic benefit	($16)	($13)	($48)	($41)	($2)	($2)	($6)	($6)

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

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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 provision of the Company's services. The following is a discussion of the guarantees that the Company has issued at September 30, 2015. The Company has also entered into certain contracts that are similar to guarantees, but that are accounted for as derivatives 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, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients and 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, 2015 and December 31, 2014, the maximum potential amount of the Company's obligation for issued financial and performance standby letters of credit was $2.9 billion and $3.0 billion, respectively. The Company's outstanding letters of credit generally have a term of less than one year but may extend longer. 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 applicant. If a letter of credit is drawn upon and reimbursement is not provided by the applicant, the Company may take possession of the collateral securing the line 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. An internal assessment of the PD and loss severity in the event of default is performed, consistent with the methodologies used for all commercial borrowers. 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 in 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. The net carrying amount of unearned fees was immaterial at September 30, 2015 and December 31, 2014.

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, defects in the securitization process or 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 and 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 indemnifies the FHA and VA for losses related to loans not originated in accordance with their guidelines.

See Note 15, "Contingencies," for additional information on current legal matters related to loan sales.

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 2000-2008 vintages for Freddie Mac and 2000-2012 vintages for Fannie Mae. Repurchase requests have declined significantly as a result of the settlements. Repurchase requests from GSEs, Ginnie Mae, and non-agency investors, for all vintages, are illustrated in the following table that summarizes demand activity for the nine months ended September 30.

(Dollars in millions)	2015	2014
Beginning pending repurchase requests	$47	$126
Repurchase requests received	58	139
Repurchase requests resolved:		
Repurchased	(17)	(22)
Cured	(72)	(198)
Total resolved	(89)	(220)
Ending pending repurchase requests [1]	$16	$45
Percent from non-agency investors:		
Pending repurchase requests	6.0%	7.0%
Repurchase requests received	0.6%	0.8%

[1] Comprised of $15 million and $42 million from the GSEs, and $1 million and $3 million from non-agency investors at September 30, 2015 and 2014, respectively.

The repurchase and make whole requests received have been primarily due 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)	2015	2014	2015	2014
Balance, at beginning of period	$60	$77	$85	$78
Repurchase (benefit)/provision	(1)	2	(9)	12
Charge-offs, net of recoveries	—	(2)	(17)	(13)
Balance, at end of period	$59	$77	$59	$77

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 future 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 in the Consolidated Balance Sheets, and the related repurchase (benefit)/provision is recognized in mortgage production related income in the Consolidated Statements of Income.

The following table summarizes the carrying value of the Company's outstanding repurchased mortgage loans at September 30, 2015 and December 31, 2014:

(Dollars in millions)	September 30, 2015	December 31, 2014
Outstanding repurchased mortgage loans:		
Performing LHFI	$262	$271
Nonperforming LHFI	15	29
Nonperforming LHFS	—	12
Total carrying value of outstanding repurchased mortgage loans	$277	$312

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 in the Consolidated Balance Sheets, separate from the reserve for mortgage loan repurchases, which totaled $18 million and $25 million at September 30, 2015 and December 31, 2014, respectively.

Contingent Consideration

The Company has contingent payment obligations related to certain business combination transactions. Payments are calculated using certain post-acquisition performance criteria. The potential obligation is recorded as an other liability, measured at the fair value of the contingent payments, which totaled $23 million and $27 million at September 30, 2015 and December 31, 2014, respectively.

Visa

The Company issues 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.

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. The fair value of the derivative liability was approximately $6 million and $5 million at September 30, 2015 and December 31, 2014, respectively; however, the ultimate impact to the Company could be significantly different based on the outcome of the Litigation.

Tax Credit Investments Sold

STCC, one of the Company's subsidiaries, previously obtained state and federal tax credits through the construction and development of affordable housing properties and continues to obtain state and federal tax credits through investments in affordable housing developments. STCC or its subsidiaries are limited and/or general partners in various partnerships established for the properties. Some of the investments that generate state tax credits may be sold to outside investors.

At September 30, 2015, STCC had four transactions outstanding that contain guarantee provisions stating that STCC will make payment to the outside investors if the tax credits become ineligible. STCC also guarantees that the general partner under the transaction will perform on the delivery of the credits. The guarantees are expected to expire within a 15 year period from inception and have remaining years to expiry ranging from three to seven years. At September 30, 2015, the maximum potential amount that STCC could be obligated to pay under these guarantees is $19 million; however, STCC can seek recourse against the general partner. Additionally, STCC can seek reimbursement from cash flow and residual values of the underlying affordable housing properties, provided that the properties retain value. At September 30, 2015 and December 31, 2014, an immaterial amount was accrued related to the obligation to deliver tax credits, and was recorded in other liabilities in the Consolidated Balance Sheets.

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 accounting 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 minimizes the credit risk of 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 regularly reviewed by the Company's Credit Risk Management division 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 documentation 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 with which the Company and other counterparties are required to post initial margin. To mitigate the risk of non-payment, variation margin 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 counterparty asset value also reflects cash collateral held. At September 30, 2015, these net asset positions were $1.1 billion, reflecting $1.7 billion of net derivative gains adjusted for cash and other collateral of $592 million that the Company held in relation to these gain positions. At December 31, 2014, reported net derivative assets were $1.1 billion, reflecting $1.5 billion of net derivative gains, adjusted for cash and other collateral of $386 million that the Company held in relation to these gain positions.

Derivatives also expose the Company to market risk. Market risk is the adverse effect that a change in market factors, such as interest rates, currency rates, equity prices, commodity prices, or implied volatility, has on the value of a derivative. Under an established risk governance framework, the Company comprehensively manages the market risk associated with its derivatives by establishing and monitoring limits on the types and degree of risk that may be undertaken. The Company continually measures this risk associated with its derivatives designated as trading instruments using a VAR methodology. Other tools and risk measures are also used to actively manage derivatives risk 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. For purposes of estimating the DVA, which is the Company’s own credit risk on derivative liability positions, the Company uses financials sector/ratings CDS spreads. To determine counterparty default probabilities, the Company leverages publicly available counterparty information when data of acceptable quality is available. In particular, for purposes of determining the CVA, the Company incorporates market-based views of counterparty default probabilities derived from

observed credit spreads in the CDS market, when available. Absent available market-derived counterparty information, the expected loss associated with each counterparty is estimated using the Company's internal risk rating system. The risk rating system utilizes counterparty-specific PD and LGD estimates to derive the expected loss. The Company adjusted the net fair value of its derivative contracts for estimates of net counterparty credit risk by approximately $5 million and $7 million at September 30, 2015 and December 31, 2014, respectively. The Company's approach toward determining fair value adjustments of derivative instruments is subject to ongoing internal review and enhancement.

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 net, 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 $1.1 billion in fair value at both September 30, 2015 and December 31, 2014, 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, 2015, the Bank carried senior long-term debt credit ratings of Baal/A-/BBB+ from Moody’s, S&P, and Fitch, respectively. On October 5, 2015, Fitch announced that it had upgraded the Bank's senior

long-term debt rating from BBB+ to A-. At September 30, 2015, 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 $15 million at September 30, 2015. At September 30, 2015, $1.1 billion in fair value of derivative liabilities were subject to CSAs, against which the Bank has posted $1.1 billion in collateral, primarily in the form of cash. At September 30, 2015, if requested by the counterparty pursuant to the terms of the CSA, the Bank would be required to post additional collateral of approximately $7 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.

Notes to Consolidated Financial Statements (Unaudited), continued

Notional and Fair Value of Derivative Positions

The following tables present the Company’s derivative positions at September 30, 2015 and December 31, 2014. 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, 2015 and December 31, 2014. 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.

	September 30, 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	$15,500	$262	$—	$—
Derivative instruments designated in fair value hedging relationships [2]				
Interest rate contracts hedging fixed rate debt	1,700	27	600	—
Interest rate contracts hedging brokered CDs	30	—	—	—
Total	1,730	27	600	—
Derivative instruments not designated as hedging instruments [3]				
Interest rate contracts hedging:				
MSRs	18,209	285	6,009	159
LHFS, IRLCs [4]	2,638	13	4,478	40
Trading activity [5]	69,745	2,449	63,113	2,237
Foreign exchange rate contracts hedging trading activity	3,634	127	3,303	123
Credit contracts hedging:				
Loans	—	—	215	3
Trading activity [6]	2,568	16	2,735	13
Equity contracts hedging trading activity [5]	22,911	1,944	28,546	2,253
Other contracts:				
IRLCs and other [7]	2,672	38	81	6
Commodities	466	97	463	96
Total	122,843	4,969	108,943	4,930
Total derivative instruments	$140,073	$5,258	$109,543	$4,930
Total gross derivative instruments, before netting		$5,258		$4,930

Less: Legally enforceable master netting agreements	(3,268)	(3,268)
Less: Cash collateral received/paid	(541)	(1,097)
Total derivative instruments, after netting	$1,449	$565

[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 $848 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.
[5] Amounts include $12.7 billion and $536 million of notional amounts related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table. Amounts also include notional amounts related to interest rate swaps hedging fixed rate debt.
[6] Asset and liability amounts include $6 million and $9 million of notional amounts from purchased and written credit risk participation agreements, respectively, whose notional is calculated as the notional of the derivative participated adjusted by the relevant RWA conversion factor.
[7] Includes $49 million notional amount that is based on the number of Visa Class B shares, 3.2 million, 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, 2014			
	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	$18,150	$208	$2,850	$8
Derivative instruments designated in fair value hedging relationships [2]				
Interest rate contracts hedging fixed rate debt	2,700	30	2,600	1
Interest rate contracts hedging brokered CDs	30	—	—	—
Total	2,730	30	2,600	1
Derivative instruments not designated as hedging instruments [3]				
Interest rate contracts hedging:				
MSRs	5,172	163	8,807	30
LHFS, IRLCs [4]	1,840	4	4,923	23
Trading activity [5]	61,049	2,405	61,065	2,225
Foreign exchange rate contracts hedging trading activity	2,429	104	2,414	100
Credit contracts hedging:				
Loans	—	—	392	5
Trading activity [6]	2,282	20	2,452	20
Equity contracts hedging trading activity [5]	21,875	2,809	28,128	3,090
Other contracts:				
IRLCs and other [7]	2,231	25	139	5
Commodities	381	71	374	70
Total	97,259	5,601	108,694	5,568
Total derivative instruments	$118,139	$5,839	$114,144	$5,577
Total gross derivative instruments, before netting		$5,839		$5,577
Less: Legally enforceable master netting agreements		(4,083)		(4,083)
Less: Cash collateral received/paid		(449)		(1,032)
Total derivative instruments, after netting		$1,307		$462

[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 $791 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.
[5] Amounts include $10.3 billion and $563 million of notional amounts related to interest rate futures and equity futures, respectively. These futures contracts settle in cash daily, one day in arrears. The derivative asset or liability associated with the one day lag is included in the fair value column of this table. Amounts also include notional amounts related to interest rate swaps hedging fixed rate debt.
[6] Asset and liability amounts both include $4 million of notional amounts from purchased and written interest rate swap risk participation agreements, respectively, whose notional is calculated as the notional of the interest rate swap participated adjusted by the relevant RWA conversion factor.

[7] Includes $49 million notional amount that is based on the number of Visa Class B shares, 3.2 million, 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 below. 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, 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)

[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	Amount of Gain/(Loss) Recognized in Income on

		Income on Derivatives During the Three Months Ended September 30, 2015	Derivatives During 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 hedging:			
IRLCs	Mortgage production related income	58	151
Commodities	Trading income	1	2
Total		$318	$438

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014		
	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 Reclassified from AOCI into Income (Effective Portion)
Derivative instruments in cash flow hedging relationships:					
Interest rate contracts hedging floating rate loans [1]	($31)	$76	$36	$225	Interest and fees on loans

[1] During the three and nine months ended September 30, 2014, the Company also reclassified $23 million and $77 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, 2014			Nine Months Ended September 30, 2014		
	Amount of Loss on Derivatives Recognized in Income	Amount of Gain on Related Hedged Items Recognized in Income	Amount of Gain/(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 Gain Recognized in Income on Hedges (Ineffective Portion)
Derivative instruments in fair value hedging relationships:						
Interest rate contracts hedging fixed rate debt [1]	($7)	$7	$—	$10	($9)	$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 Recognized in Income on Derivatives During the Three Months Ended September 30, 2014	Amount of Gain/(Loss) Recognized in Income on Derivatives During the Nine Months Ended September 30, 2014
Derivative instruments not designated as hedging instruments:			
Interest rate contracts hedging:			
MSRs	Mortgage servicing related income	$17	$138

LHFS, IRLCs	Mortgage production related income	4	(92)
Trading activity	Trading income	9	34
Foreign exchange rate contracts hedging trading activity	Trading income	44	43
Credit contracts hedging:			
Loans	Other noninterest income	1	—
Trading activity	Trading income	4	13
Equity contracts hedging trading activity	Trading income	1	4
Other contracts - IRLCs	Mortgage production related income	52	190
Total		$132	$330

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, 2015 and December 31, 2014, which are adjusted to reflect the effects of legally enforceable master netting agreements and cash collateral received or paid on 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, 2015						
Derivative instrument assets:						
Derivatives subject to master netting arrangement or similar arrangement	$4,748	$3,455	$1,293		$51	$1,242
Derivatives not subject to master netting arrangement or similar arrangement	38	—	38		—	38
Exchange traded derivatives	472	354	118		—	118
Total derivative instrument assets	$5,258	$3,809	$1,449	[1]	$51	$1,398
Derivative instrument liabilities:						
Derivatives subject to master netting arrangement or similar arrangement	$4,488	$4,011	$477		$20	$457
Derivatives not subject to master netting arrangement or similar arrangement	88	—	88		—	88
Exchange traded derivatives	354	354	—		—	—
Total derivative instrument liabilities	$4,930	$4,365	$565	[2]	$20	$545
December 31, 2014						
Derivative instrument assets:						
Derivatives subject to master netting arrangement or similar arrangement	$5,127	$4,095	$1,032		$63	$969
	25	—	25		—	25

Derivatives not subject to master netting arrangement or similar arrangement					
Exchange traded derivatives	687	437	250	—	250
Total derivative instrument assets	$5,839	$4,532	$1,307 [1]	$63	$1,244
Derivative instrument liabilities:					
Derivatives subject to master netting arrangement or similar arrangement	$5,001	$4,678	$323	$12	$311
Derivatives not subject to master netting arrangement or similar arrangement	133	—	133	—	133
Exchange traded derivatives	443	437	6	—	6
Total derivative instrument liabilities	$5,577	$5,115	$462 [2]	$12	$450

[1] At September 30, 2015, $1.4 billion, net of $541 million offsetting cash collateral, is recognized in trading assets and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2014, $1.3 billion, net of $449 million offsetting cash collateral, is recognized in trading assets and derivative instruments within the Company's Consolidated Balance Sheets.

[2] At September 30, 2015, $565 million, net of $1.1 billion offsetting cash collateral, is recognized in trading liabilities and derivative instruments within the Company's Consolidated Balance Sheets. At December 31, 2014, $462 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 SunTrust'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 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 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 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, 2015, the Company did not have any material risk of making a non-recoverable payment on any written CDS. During 2015 and 2014, 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, 2015 and December 31, 2014, written CDS had remaining terms of five years and four years, respectively. The fair values of written CDS were under $1 million and $1 million at September 30, 2015 and December 31, 2014, respectively. The maximum guarantees outstanding at September 30, 2015 and December 31, 2014, as measured by the gross notional amounts of written CDS, were $150 million and $20 million, respectively, which represent the curtailment of mirror purchase CDS positions. At September 30, 2015 and December 31, 2014, the gross notional amounts of purchased CDS contracts, which protect the Company against default of a reference asset, were $315 million and $190 million, respectively. The fair values of purchased CDS were $2 million and $5 million at September 30, 2015 and December 31, 2014, 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 $2.4 billion and $2.3 billion of

outstanding TRS notional balances at September 30, 2015 and December 31, 2014, respectively. The fair values of these TRS assets and liabilities at September 30, 2015 were $16 million and $11 million, respectively, and related collateral held at September 30, 2015 was $462 million. The fair values of the TRS assets and liabilities at December 31, 2014 were $19 million and $14 million, respectively, and related collateral held at December 31, 2014 was $373 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 monitors its payment risk on its risk participations by monitoring the creditworthiness of the obligors, which is based on the normal credit review process the Company would have performed had it entered into a derivative directly with the obligors. The obligors are all corporations or partnerships. The Company continues to monitor the creditworthiness of the obligors and the likelihood of payment could change at any time due to unforeseen circumstances. To date, no

material losses have been incurred related to the Company's written risk participations. At September 30, 2015, the remaining terms for these risk participations generally ranged from zero to eight years, with a weighted average on the maximum estimated exposure of 4 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 $73 million and $31 million at September 30, 2015 and December 31, 2014, respectively. The fair values of the written risk participations were immaterial at both September 30, 2015 and December 31, 2014. As part of its trading activities, the Company may enter into purchased risk participations to mitigate credit 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, 2015, the maturities for hedges of floating rate loans ranged from one to seven years, with the weighted average being 3.2 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, 2015 and 2014. At September 30, 2015, $211 million of the deferred net pre-tax gains on derivative instruments that are recognized in AOCI are expected to be reclassified to net interest income over the next twelve months in connection with the recognition of interest income on these hedged items. The amount to be reclassified into income includes both active and terminated or de-designated cash flow hedges. The Company may choose to terminate or de-designate a hedging relationship in this program 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 Company-issued fixed rate, long-term debt 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. Economic hedging objectives are accomplished by entering into offsetting derivatives either on an individual basis or collectively on a macro basis and generally accomplish the Company's goal of mitigating the targeted risk.

The Company utilizes interest rate derivatives to mitigate exposures from various instruments, including:

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

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 and, therefore, the Company does not specifically associate individual derivatives with specific assets or liabilities.

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 a requirement to measure such assets and liabilities at fair value or 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, 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 carried at 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 the gathering of 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 quarterly, and any material deterioration in model performance is addressed. This review is performed by an internal group that reports to the Corporate Risk Function.

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 other 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 these 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 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, 2015				
	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	$443	$—	$—	$—	$443
Federal agency securities	—	532	—	—	532
U.S. states and political subdivisions	—	40	—	—	40
MBS - agency	—	565	—	—	565
CLO securities	—	2	—	—	2
Corporate and other debt securities	—	390	—	—	390
CP	—	312	—	—	312
Equity securities	65	—	—	—	65
Derivative instruments	474	4,746	38	(3,809)	1,449
Trading loans	—	2,739	—	—	2,739
Total trading assets and derivative instruments	982	9,326	38	(3,809)	6,537
Securities AFS:					
U.S. Treasury securities	3,065	—	—	—	3,065
Federal agency securities	—	420	—	—	420
U.S. states and political subdivisions	—	169	5	—	174
MBS - agency	—	22,905	—	—	22,905
MBS - private	—	—	102	—	102
ABS	—	—	15	—	15
Corporate and other debt securities	—	33	5	—	38
Other equity securities [2]	111	—	440	—	551
Total securities AFS	3,176	23,527	567	—	27,270
Residential LHFS	—	1,881	2	—	1,883
LHFI	—	—	262	—	262
MSRs	—	—	1,262	—	1,262
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	584	—	—	—	584
MBS - agency	—	4	—	—	4
Corporate and other debt securities	—	177	—	—	177
Derivative instruments	355	4,569	6	(4,365)	565
Total trading liabilities and derivative instruments	939	4,750	6	(4,365)	1,330

Long-term debt	—	986	—	—	986
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 $111 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.

Notes to Consolidated Financial Statements (Unaudited), continued

	December 31, 2014 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	$267	$—	$—	$—	$267
Federal agency securities	—	547	—	—	547
U.S. states and political subdivisions	—	42	—	—	42
MBS - agency	—	545	—	—	545
CLO securities	—	3	—	—	3
Corporate and other debt securities	—	509	—	—	509
CP	—	327	—	—	327
Equity securities	45	—	—	—	45
Derivative instruments	688	5,126	25	(4,532)	1,307
Trading loans	—	2,610	—	—	2,610
Total trading assets and derivative instruments	1,000	9,709	25	(4,532)	6,202
Securities AFS:					
U.S. Treasury securities	1,921	—	—	—	1,921
Federal agency securities	—	484	—	—	484
U.S. states and political subdivisions	—	197	12	—	209
MBS - agency	—	23,048	—	—	23,048
MBS - private	—	—	123	—	123
ABS	—	—	21	—	21
Corporate and other debt securities	—	36	5	—	41
Other equity securities [2]	138	—	785	—	923
Total securities AFS	2,059	23,765	946	—	26,770
Residential LHFS	—	1,891	1	—	1,892
LHFI	—	—	272	—	272
MSRs	—	—	1,206	—	1,206
Liabilities					
Trading liabilities and derivative instruments:					
U.S. Treasury securities	485	—	—	—	485
MBS - agency	—	1	—	—	1
Corporate and other debt securities	—	279	—	—	279
Derivative instruments	444	5,128	5	(5,115)	462
Total trading liabilities and derivative instruments	929	5,408	5	(5,115)	1,227

Long-term debt	—	1,283	—	—	1,283
Other liabilities [3]	—	—	27	—	27

[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 $138 million of mutual fund investments, $376 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, and $7 million of other.
[3] Includes contingent consideration obligations related to acquisitions.

The following tables present the difference between fair value and the aggregate UPB of trading loans, LHFS, LHFI, and long-term debt instruments for which the FVO has been elected. For LHFS and LHFI for which the FVO has been elected, the tables also include the difference between fair value and the aggregate UPB of loans in nonaccrual status.

(Dollars in millions)	Fair Value at September 30, 2015	Aggregate UPB under FVO at September 30, 2015	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	$2,739	$2,687	$52
LHFS:			
Accrual	1,883	1,806	77
LHFI:			
Accrual	260	269	(9)
Nonaccrual	2	3	(1)
Liabilities:			
Long-term debt	986	907	79

(Dollars in millions)	Fair Value at December 31, 2014	Aggregate UPB under FVO at December 31, 2014	Fair Value Over/(Under) Unpaid Principal
Assets:			
Trading loans	$2,610	$2,589	$21
LHFS:			
Accrual	1,891	1,817	74
Nonaccrual	1	1	—
LHFI:			
Accrual	269	281	(12)
Nonaccrual	3	5	(2)
Liabilities:			
Long-term debt	1,283	1,176	107

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, 2015 and 2014 of financial instruments for which the FVO has been elected, as well as MSRs. The tables do not reflect the change in fair value attributable to the related economic hedges the Company uses to mitigate the market-related risks associated with the financial instruments. Generally, the changes in the fair value of economic

hedges are recognized in trading income, mortgage production related income, or mortgage servicing related 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, 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 Current Period Earnings [2]	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Other Noninterest Income	Total Changes in Fair Values Included in Current Period 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.

Fair Value Gain/(Loss) for the Three Months Ended September 30, 2014 for Items Measured at Fair Value Pursuant to Election of the FVO	Fair Value Gain/(Loss) for the Nine Months Ended September 30, 2014 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	Total Changes in Fair Values Included in Current Period Earnings [2]	Trading Income	Mortgage Production Related Income [1]	Mortgage Servicing Related Income	Total Changes in Fair Values Included in Current Period Earnings [2]
Assets:								
Trading loans	$1	$—	$—	$1	$10	$—	$—	$10
LHFS	—	(32)	—	(32)	—	(18)	—	(18)
LHFI	—	—	—	—	—	8	—	8
MSRs	—	—	(55)	(55)	—	2	(240)	(238)
Liabilities:								
Brokered time deposits	1	—	—	1	6	—	—	6
Long-term debt	9	—	—	9	6	—	—	6

[1] Income related to LHFS does not include income from IRLCs. For the three and nine months ended September 30, 2014, 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, 2014 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.

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 2 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 obtained fair values 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, 2015 and December 31, 2014 includes bonds that are only 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