

SUNTRUST BANKS INC
Form 10-Q
November 03, 2017

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, 2017

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer

Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company
Emerging growth company

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

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

At October 31, 2017, 476,033,241 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.
AIP — Annual Incentive Plan.
ALCO — Asset/Liability Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
APIC — Additional paid-in capital.
ASC — Accounting Standards Codification.
ASU — Accounting Standards Update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.
BCBS — Basel Committee on Banking Supervision.
BHC — Bank holding company.
Board — The Company's Board of Directors.
bps — Basis points.
BRC — Board Risk Committee.
CCAR — Comprehensive Capital Analysis and Review.
CCB — Capital conservation buffer.
CD — Certificate of deposit.
CDR — Conditional default rate.
CDS — Credit default swaps.
CECL — Current expected credit loss.
CEO — Chief Executive Officer.
CET1 — Common Equity Tier 1 Capital.
CFO — Chief Financial Officer.
CIB — Corporate and investment banking.
C&I — Commercial and industrial.
Class A shares — Visa Inc. Class A common stock.
Class B shares — Visa Inc. Class B common stock.
CLO — Collateralized loan obligation.
CME — Chicago Mercantile Exchange.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPR — Conditional prepayment rate.
CRE — Commercial real estate.
CSA — Credit support annex.
DDA — Demand deposit account.
DOJ — Department of Justice.
DTA — Deferred tax asset.
DVA — Debit valuation adjustment.
EBPC — Enterprise Business Practices Committee.
EPS — Earnings per share.
ER — Enterprise Risk.
ERISA — Employee Retirement Income Security Act of 1974.

Exchange Act — Securities Exchange Act of 1934.
Fannie Mae — Federal National Mortgage Association.
Freddie Mac — Federal Home Loan Mortgage Corporation.
FDIC — Federal Deposit Insurance Corporation.
Federal Reserve — Federal Reserve System.
Fed funds — Federal funds.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.

FICO — Fair Isaac Corporation.
Fitch — Fitch Ratings Ltd.
FRB — Federal Reserve Board.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GenSpring — GenSpring Family Offices, LLC.
Ginnie Mae — Government National Mortgage Association.
GSE — Government-sponsored enterprise.
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 Operation.
Moody’s — Moody’s Investors Service.
MRA — Master Repurchase Agreement.
MRM — Market Risk Management.
MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NCF — National Commerce Financial Corporation.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.
NPR — Notice of proposed rulemaking.
NSFR — Net stable funding ratio.
OCC — Office of the Comptroller of the Currency.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
PAC — Premium Assignment Corporation.

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Parent Company — SunTrust Banks, Inc. (the parent Company of SunTrust Bank and other subsidiaries).

PD — Probability of default.

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

PPNR — Pre-provision net revenue.

PWM — Private Wealth Management.

REIT — Real estate investment trust.

ROA — Return on average total assets.

ROE — Return on average common shareholders' equity.

ROTCE — Return on average tangible common shareholders' equity.

RSU — Restricted stock unit.

RWA — Risk-weighted assets.

i

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

U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
UPB — Unpaid principal balance.
VA — Veterans Administration.
VAR — Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa — The Visa, U.S.A. Inc. card association or its affiliates, collectively.
Visa Counterparty — A financial institution that purchased the Company's Visa Class B shares.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included.

Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2017.

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)	2017	2016	2017	2016
Interest Income				
Interest and fees on loans	\$1,382	\$1,245	\$4,009	\$3,670
Interest and fees on loans held for sale	24	25	70	62
Interest and dividends on securities available for sale	195	159	573	483
Trading account interest and other	34	22	95	70
Total interest income	1,635	1,451	4,747	4,285
Interest Expense				
Interest on deposits	111	67	286	188
Interest on long-term debt	76	68	216	191
Interest on other borrowings	18	8	46	29
Total interest expense	205	143	548	408
Net interest income	1,430	1,308	4,199	3,877
Provision for credit losses	120	97	330	343
Net interest income after provision for credit losses	1,310	1,211	3,869	3,534
Noninterest Income				
Service charges on deposit accounts	154	162	453	477
Other charges and fees	92	93	291	290
Card fees	86	83	255	243
Investment banking income	166	147	480	372
Trading income	51	65	148	154
Trust and investment management income	79	80	229	230
Retail investment services	69	71	208	212
Mortgage production related income	61	118	170	288
Mortgage servicing related income	46	49	148	164
Commercial real estate related income ¹	17	8	61	36
Net securities gains	—	—	1	4
Other noninterest income ¹	25	13	76	99
Total noninterest income	846	889	2,520	2,569
Noninterest Expense				
Employee compensation	725	687	2,152	1,994
Employee benefits	81	86	302	315
Outside processing and software	203	225	612	626
Net occupancy expense	94	93	280	256
Regulatory assessments	47	47	143	127
Marketing and customer development	45	38	129	120
Equipment expense	40	44	123	126
Amortization	22	14	49	35
Operating (gains)/losses	(34)	35	17	85
Other noninterest expense	168	140	436	388
Total noninterest expense	1,391	1,409	4,243	4,072
Income before provision for income taxes	765	691	2,146	2,031

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Provision for income taxes	225	215	606	611
Net income including income attributable to noncontrolling interest	540	476	1,540	1,420
Net income attributable to noncontrolling interest	2	2	7	7
Net income	\$538	\$474	\$1,533	\$1,413
Net income available to common shareholders	\$512	\$457	\$1,468	\$1,363
Net income per average common share:				
Diluted	\$1.06	\$0.91	\$3.00	\$2.70
Basic	1.07	0.92	3.04	2.72
Dividends declared per common share	0.40	0.26	0.92	0.74
Average common shares - diluted	483,640	500,885	489,176	505,619
Average common shares - basic	478,258	496,304	483,711	501,036

¹ Beginning January 1, 2017, the Company began presenting income related to the Company's Pillar, STCC, and Structured Real Estate businesses as a separate line item on the Consolidated Statements of Income titled Commercial real estate related income. For periods prior to January 1, 2017, these amounts were previously presented in Other noninterest income and have been reclassified to Commercial real estate related income for comparability.

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in millions) (Unaudited)	2017	2016	2017	2016
Net income	\$538	\$474	\$1,533	\$1,413
Components of other comprehensive income/(loss):				
Change in net unrealized gains/(losses) on securities available for sale, net of tax of \$24, (\$19), \$57, and \$228, respectively	40	(32)	97	383
Change in net unrealized (losses)/gains on derivative instruments, net of tax of (\$1), (\$51), (\$7), and \$81, respectively	(2)	(86)	(13)	137
Change in credit risk adjustment on long-term debt, net of tax of \$1, (\$2), \$1, and (\$3), respectively ¹	1	(3)	1	(5)
Change related to employee benefit plans, net of tax of \$2, \$2, \$3, and \$39, respectively	3	3	1	65
Total other comprehensive income/(loss), net of tax	42	(118)	86	580
Total comprehensive income	\$580	\$356	\$1,619	\$1,993

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.
Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
(Dollars in millions and shares in thousands, except per share data)		
Assets	(Unaudited)	
Cash and due from banks	\$7,071	\$5,091
Federal funds sold and securities borrowed or purchased under agreements to resell	1,182	1,307
Interest-bearing deposits in other banks	25	25
Cash and cash equivalents	8,278	6,423
Trading assets and derivative instruments ¹	6,318	6,067
Securities available for sale ²	31,444	30,672
Loans held for sale (\$2,252 and \$3,540 at fair value at September 30, 2017 and December 31, 2016, respectively)	2,835	4,169
Loans ³ (\$206 and \$222 at fair value at September 30, 2017 and December 31, 2016, respectively)	144,264	143,298
Allowance for loan and lease losses	(1,772)	(1,709)
Net loans	142,492	141,589
Premises and equipment, net	1,616	1,556
Goodwill	6,338	6,337
Other intangible assets (Residential MSR's at fair value: \$1,628 and \$1,572 at September 30, 2017 and December 31, 2016, respectively)	1,706	1,657
Other assets	7,225	6,405
Total assets	\$208,252	\$204,875
Liabilities		
Noninterest-bearing deposits	\$43,984	\$43,431
Interest-bearing deposits (CDs at fair value: \$207 and \$78 at September 30, 2017 and December 31, 2016, respectively)	118,753	116,967
Total deposits	162,737	160,398
Funds purchased	3,118	2,116
Securities sold under agreements to repurchase	1,422	1,633
Other short-term borrowings	909	1,015
Long-term debt ⁴ (\$758 and \$963 at fair value at September 30, 2017 and December 31, 2016, respectively)	11,280	11,748
Trading liabilities and derivative instruments	1,284	1,351
Other liabilities	2,980	2,996
Total liabilities	183,730	181,257
Shareholders' Equity		
Preferred stock, no par value	1,975	1,225
Common stock, \$1.00 par value	550	550
Additional paid-in capital	8,985	9,010
Retained earnings	17,021	16,000
Treasury stock, at cost, and other ⁵	(3,274)	(2,346)
Accumulated other comprehensive loss, net of tax	(735)	(821)
Total shareholders' equity	24,522	23,618
Total liabilities and shareholders' equity	\$208,252	\$204,875
Common shares outstanding ⁶	476,001	491,188
Common shares authorized	750,000	750,000

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Preferred shares outstanding	20	12
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	74,053	58,738
¹ Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	\$1,043	\$1,437
² Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral	280	—
³ Includes loans of consolidated VIEs	186	211
⁴ Includes debt of consolidated VIEs	195	222
⁵ Includes noncontrolling interest	101	103
⁶ Includes restricted shares	9	11

See accompanying Notes to Consolidated Financial Statements (unaudited).

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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, 2016	\$1,225	509	\$550	\$9,094	\$14,686	(\$1,658)	(\$460)	\$23,437
Cumulative effect of credit risk adjustment ²	—	—	—	—	5	—	(5)	—
Net income	—	—	—	—	1,413	—	—	1,413
Other comprehensive income	—	—	—	—	—	—	580	580
Change in noncontrolling interest	—	—	—	—	—	(7)	—	(7)
Common stock dividends, \$0.74 per share	—	—	—	—	(370)	—	—	(370)
Preferred stock dividends ³	—	—	—	—	(49)	—	—	(49)
Repurchase of common stock	—	(15)	—	—	—	(566)	—	(566)
Repurchase of common stock warrants	—	—	—	(24)	—	—	—	(24)
Exercise of stock options and stock compensation expense ⁴	—	1	—	(28)	—	43	—	15
Restricted stock activity ⁴	—	1	—	(33)	(4)	55	—	18
Amortization of restricted stock compensation	—	—	—	—	—	2	—	2
Balance, September 30, 2016	\$1,225	496	\$550	\$9,009	\$15,681	(\$2,131)	\$115	\$24,449
Balance, January 1, 2017	\$1,225	491	\$550	\$9,010	\$16,000	(\$2,346)	(\$821)	\$23,618
Net income	—	—	—	—	1,533	—	—	1,533
Other comprehensive income	—	—	—	—	—	—	86	86
Change in noncontrolling interest	—	—	—	—	—	(2)	—	(2)
Common stock dividends, \$0.92 per share	—	—	—	—	(443)	—	—	(443)
Preferred stock dividends ³	—	—	—	—	(65)	—	—	(65)
Issuance of preferred stock, Series G 750	—	—	—	(7)	—	—	—	743
Repurchase of common stock	—	(17)	—	—	—	(984)	—	(984)
Exercise of stock options and stock compensation expense	—	1	—	(14)	—	27	—	13
Restricted stock activity	—	1	—	(4)	(4)	31	—	23
Balance, September 30, 2017	\$1,975	476	\$550	\$8,985	\$17,021	(\$3,274)	(\$735)	\$24,522

¹ At September 30, 2017, includes (\$3,374) million for treasury stock and \$101 million for noncontrolling interest. At September 30, 2016, includes (\$2,232) million for treasury stock and \$101 million for noncontrolling interest.

² Related to the Company's early adoption of the ASU 2016-01 provision related to changes in instrument-specific credit risk, beginning January 1, 2016. See Note 1, "Significant Accounting Policies," and Note 17, "Accumulated Other Comprehensive (Loss)/Income," for additional information.

³ For the nine months ended September 30, 2017, 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, \$4,219 per share for Perpetual Preferred Stock Series F, and \$2,090 per share for Perpetual Preferred Stock Series G.

For the nine months ended September 30, 2016, dividends were \$3,056 per share for both Perpetual Preferred Stock Series A and B, \$4,406 per share for Perpetual Preferred Stock Series E, and \$4,219 per share for Perpetual Preferred Stock Series F.

⁴ Includes a (\$4) million net reclassification of excess tax benefits from Additional paid-in capital to Provision for income taxes, related to the Company's adoption of ASU 2016-09.

See accompanying Notes to Consolidated Financial Statements (unaudited).

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SunTrust Banks, Inc.

Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2017	2016
(Dollars in millions) (Unaudited)		
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	\$1,540	\$1,420
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation, amortization, and accretion	540	533
Origination of servicing rights	(262)	(198)
Provisions for credit losses and foreclosed property	336	347
Stock-based compensation	121	85
Net securities gains	(1)	(4)
Net gain on sale of loans held for sale, loans, and other assets	(183)	(376)
Net decrease/(increase) in loans held for sale	1,488	(1,647)
Net increase in trading assets	(272)	(704)
Net increase in other assets	(950)	(193)
Net (decrease)/increase in other liabilities	(267)	155
Net cash provided by/(used in) operating activities	2,090	(582)
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	3,169	3,763
Proceeds from sales of securities available for sale	1,486	197
Purchases of securities available for sale	(5,344)	(5,297)
Net increase in loans, including purchases of loans	(1,839)	(7,007)
Proceeds from sales of loans	520	1,482
Purchases of servicing rights	—	(101)
Capital expenditures	(233)	(188)
Payments related to acquisitions, including contingent consideration, net of cash acquired	—	(23)
Proceeds from the sale of other real estate owned and other assets	183	171
Net cash used in investing activities	(2,058)	(7,003)
Cash Flows from Financing Activities		
Net increase in total deposits	2,339	9,012
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	685	272
Proceeds from issuance of long-term debt	2,623	4,924
Repayments of long-term debt	(3,073)	(1,448)
Proceeds from the issuance of preferred stock	743	—
Repurchase of common stock	(984)	(566)
Repurchase of common stock warrants	—	(24)
Common and preferred stock dividends paid	(485)	(412)
Taxes paid related to net share settlement of equity awards	(38)	(47)
Proceeds from exercise of stock options	13	15
Net cash provided by financing activities	1,823	11,726
Net increase in cash and cash equivalents	1,855	4,141
Cash and cash equivalents at beginning of period	6,423	5,599
Cash and cash equivalents at end of period	\$8,278	\$9,740
Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	\$16	\$23

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Loans transferred from loans to loans held for sale	218	315
Loans transferred from loans and loans held for sale to other real estate owned	43	46
Non-cash impact of debt assumed by purchaser in lease sale	9	74

See accompanying Notes to Consolidated Financial Statements (unaudited).

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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 to present interim financial statement information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete, consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments that are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes; actual results could vary from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

These interim Consolidated Financial Statements should be read in conjunction with the Company's 2016 Annual Report on Form 10-K. Other than the recently issued accounting pronouncements discussed in this section, there have been no significant changes to the Company's accounting policies, as disclosed in the 2016 Annual Report on Form 10-K, that could have a material effect on the Company's financial statements.

The Company evaluated events that occurred between September 30, 2017 and the date the accompanying financial statements were issued, and there were no material events, other than those already discussed in this Form 10-Q, that would require recognition in the Company's Consolidated Financial Statements or disclosure in the accompanying Notes.

Recently Issued Accounting Pronouncements

The following table summarizes ASUs recently issued by the FASB that could have a material effect on the Company's financial statements:

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standard(s) Adopted in 2017 (or partially adopted previously)			
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	The ASU amends ASC Topic 825, Financial Instruments-Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practicability exception, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. With the exception of disclosure requirements that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.	January 1, 2018 Early adoption is permitted beginning January 1, 2016 or 2017 for the provision related to changes in instrument-specific credit risk for financial liabilities under the FVO.	The Company early adopted the provision related to changes in instrument-specific credit risk beginning January 1, 2016, which resulted in an immaterial, cumulative effect adjustment from retained earnings to AOCI. See Note 1, "Significant Accounting Policies," to the Company's 2016 Annual Report on Form 10-K for additional information. The Company does not expect the remaining provisions of this ASU to have a material impact on its Consolidated Financial Statements and related disclosures.
Standard(s) Not Yet Adopted			
ASU 2016-02, Leases	The ASU creates ASC Topic 842, Leases, which supersedes ASC Topic	January 1, 2019	The Company has formed a cross-functional team to oversee the

840, Leases. ASC Topic 842 requires lessees to recognize right-of-use assets and associated liabilities that arise from leases, with the exception of short-term leases. The ASU does not make significant changes to lessor accounting; however, there were certain improvements made to align lessor accounting with the lessee accounting model and ASC Topic 606, Revenue from Contracts with Customers. There are several new qualitative and quantitative disclosures required. Upon transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

Early adoption is permitted.

implementation of this ASU. The Company's implementation efforts are ongoing, including the review of its lease portfolios and related lease accounting policies, the review of its service contracts for embedded leases, and the deployment of a new lease software solution. The Company's adoption of this ASU will result in an increase in right-of-use assets and associated lease liabilities, arising from operating leases in which the Company is the lessee, on its Consolidated Balance Sheets.

The amount of the right-of-use assets and associated lease liabilities recorded upon adoption will be based primarily on the present value of unpaid future minimum lease payments, the amount of which will depend on the population of leases in effect at the date of adoption. At September 30, 2017, the Company's estimate of right-of-use assets and lease liabilities that would be recorded on its Consolidated Balance Sheets upon adoption is in excess of \$1 billion. The Company does not expect this ASU to have a material impact on its Consolidated Statements of Income.

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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standard(s) Not Yet Adopted (continued)			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	<p>The ASU amends ASC Topic 326, Financial Instruments-Credit Losses, to replace the incurred loss impairment methodology with a CECL methodology for financial instruments measured at amortized cost and other commitments to extend credit. For this purpose, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption.</p> <p>The CECL model does not apply to AFS debt securities; however, the ASU requires entities to record an allowance when recognizing credit losses for AFS securities, rather than recording a direct write-down of the carrying amount.</p>	<p>January 1, 2020</p> <p>Early adoption is permitted beginning January 1, 2019.</p>	<p>The Company has formed a cross-functional team to oversee the implementation of this ASU and is assessing the required changes to its credit loss estimation methodologies. The Company is evaluating the impact that this ASU will have on its Consolidated Financial Statements and related disclosures, and the Company currently anticipates that an increase to the allowance for credit losses will be recognized upon adoption to provide for the expected credit losses over the estimated life of the financial assets. However, since the magnitude of the anticipated increase in the allowance for credit losses will be impacted by economic conditions and trends in the Company's portfolio at the time of adoption, the quantitative impact cannot yet be reasonably estimated.</p>
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	<p>The ASU amends ASC Topic 230, Statement of Cash Flows, to clarify the classification of certain cash receipts and payments within the Company's Consolidated Statements of Cash Flow. These items include: cash payments for debt prepayment or debt extinguishment costs; cash outflows for the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method</p>	<p>January 1, 2018</p> <p>Early adoption is permitted.</p>	<p>The Company is evaluating the impact that this ASU will have on its Consolidated Statements of Cash Flows. Changes in the Company's presentation of certain cash payments and receipts between the operating, financing, and investing sections of its Consolidated Statements of Cash Flows are expected; however, the quantitative impact has not yet been determined.</p>

investees; and beneficial interests acquired in securitization transactions. The ASU also clarifies that when no specific U.S. GAAP guidance exists and the source of the cash flows are not separately identifiable, then the predominant source of cash flow should be used to determine the classification for the item. The ASU must be adopted on a retrospective basis.

ASU 2014-09,
Revenue from
Contracts with
Customers

ASU 2015-14,
Deferral of the
Effective Date

ASU 2016-08,
Principal versus
Agent
Considerations

ASU 2016-10,
Identifying
Performance
Obligations and
Licensing

ASU 2016-12,
Narrow-Scope
Improvements
and Practical
Expedients

ASU 2016-20,
Technical
Corrections and
Improvements to
Topic 606,
Revenue from
Contracts with
Customers

These ASUs comprise ASC Topic 606, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These ASUs may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts, with remaining performance obligations as of the effective date.

January 1,
2018

Early
adoption is
permitted
beginning
January 1,
2017.

The Company is completing its evaluation of the anticipated effects that these ASUs will have on its Consolidated Financial Statements and related disclosures. The Company conducted a comprehensive scoping exercise to determine the revenue streams that are in the scope of these updates. Results indicate that certain noninterest income financial statement line items, including service charges on deposit accounts, card fees, other charges and fees, investment banking income, trust and investment management income, retail investment services, commercial real estate related income, and other noninterest income, contain revenue streams that are within the scope of these updates. Additionally, the Company's analyses indicate that there will be changes to the presentation of certain types of revenue and expenses within investment banking income, such as underwriting revenue and expenses, which will be shown gross pursuant to the new requirements.

The Company is in the process of developing additional quantitative and qualitative disclosures that will be required upon adoption of these ASUs. The Company plans to adopt these standards beginning January 1, 2018 and expects to use the modified retrospective method of adoption. The Company does not expect these ASUs to have a material impact on its Consolidated Financial Statements and related disclosures.

Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standard(s) Not Yet Adopted (continued)			
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The ASU amends ASC Topic 350, Intangibles - Goodwill and Other, to simplify the subsequent measurement of goodwill, by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Entities should recognize an impairment charge for the amount by which a reporting unit's carrying amount exceeds its fair value, but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis.	January 1, 2020 Early adoption is permitted.	Based on the Company's most recent annual goodwill impairment test performed as of October 1, 2016, there were no reporting units for which the carrying amount of the reporting unit exceeded its fair value; therefore, this ASU would not currently have an impact on the Company's Consolidated Financial Statements and related disclosures. However, if upon adoption the carrying amount of a reporting unit exceeds its fair value, the Company would be impacted by the amount of impairment recognized.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The ASU amends ASC Topic 815, Derivatives and Hedging, to simplify the requirements for hedge accounting. Key amendments include: eliminating the requirement to separately measure and report hedge ineffectiveness, requiring changes in the value of the hedging instrument to be presented in the same income statement line as the earnings effect of the hedged item, and the ability to measure the hedged item based on the benchmark interest rate component of the total contractual coupon for fair value hedges. New incremental disclosures are also required for reporting periods subsequent to the date of adoption. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption using a modified retrospective approach.	January 1, 2019 Early adoption is permitted.	The Company is evaluating the significance and other effects that this ASU will have on its Consolidated Financial Statements and related disclosures; however, the quantitative impact has not yet been determined.

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 December 31,	
	30, 2017	2016
Fed funds sold	\$—	\$58
Securities borrowed	371	270
Securities purchased under agreements to resell	811	979

Total Fed funds sold and securities borrowed or purchased under agreements to resell \$1,182 \$1,307

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

related counterparty agree on the amount of collateral required to secure the principal amount loaned under these arrangements. The Company monitors collateral values daily and calls for additional collateral to be provided as warranted under the respective agreements. At September 30, 2017 and December 31, 2016, the total market value of collateral held was \$1.2 billion and \$1.3 billion, of which \$194 million and \$246 million was repledged, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

Securities Sold Under Agreements to Repurchase

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

(Dollars in millions)	September 30, 2017			December 31, 2016				
	Overnight and Continuous	to 30 days	30-90 days	Total	Overnight and Continuous	to 30 days	30-90 days	Total
U.S. Treasury securities	\$32	\$—	\$—	\$32	\$27	\$—	\$—	\$27
Federal agency securities	58	25	—	83	288	24	—	312
MBS - agency	738	94	—	832	793	51	—	844
CP	68	—	—	68	49	—	—	49
Corporate and other debt securities	292	75	40	407	311	50	40	401
Total securities sold under agreements to repurchase	\$1,188	\$194	\$40	\$1,422	\$1,468	\$125	\$40	\$1,633

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. Generally, MRAs require collateral to exceed the asset or liability recognized on the balance sheet. Transactions subject to these agreements are treated as collateralized financings, and those with a single counterparty are permitted to be presented net on the Company's Consolidated Balance Sheets, provided certain criteria are met that permit balance sheet netting. At September 30, 2017 and December 31, 2016, there were no such transactions subject to legally enforceable MRAs that were eligible for balance sheet netting.

The following table includes the amount of collateral pledged or received related to exposures subject to enforceable MRAs. While these agreements are typically over-collateralized, the amount of collateral presented in this table is limited to the amount of the related recognized asset or liability for each counterparty.

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
September 30, 2017					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,182	\$—	\$1,182	¹ \$1,165	\$17
Financial liabilities:					
Securities sold under agreements to repurchase	1,422	—	1,422	1,422	—
December 31, 2016					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,249	\$—	\$1,249	¹ \$1,241	\$8

Financial liabilities:

Securities sold under agreements to repurchase	1,633	—	1,633	1,633	—
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¹ Excludes \$0 and \$58 million of Fed funds sold, which are not subject to a master netting agreement at September 30, 2017 and December 31, 2016, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 3 - TRADING ASSETS AND LIABILITIES AND DERIVATIVE INSTRUMENTS

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

(Dollars in millions)	September 30, December 31,	
	2017	2016
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	\$366	\$539
Federal agency securities	303	480
U.S. states and political subdivisions	53	134
MBS - agency	666	567
CLO securities	—	1
Corporate and other debt securities	665	656
CP	383	140
Equity securities	30	49
Derivative instruments ¹	898	984
Trading loans ²	2,954	2,517
Total trading assets and derivative instruments	\$6,318	\$6,067

Trading Liabilities and Derivative Instruments:

U.S. Treasury securities	\$555	\$697
MBS - agency	—	1
Corporate and other debt securities	347	255
Equity securities	5	—
Derivative instruments ¹	377	398
Total trading liabilities and derivative instruments	\$1,284	\$1,351

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

² Includes loans related to TRS.

Various trading and derivative instruments are used as part of the Company's overall balance sheet management strategies and to support client requirements executed through the Bank and/or STRH, a broker/dealer subsidiary of the Company. The Company manages the potential market volatility associated with trading instruments by using appropriate risk management strategies. The size, volume, and nature of the trading products and derivative instruments can vary based on economic conditions as well as client-specific and Company-specific asset or liability positions.

Product offerings to clients include debt securities, loans traded in the secondary market, equity securities, derivative contracts, and other similar financial instruments. Other trading-

related activities include acting as a market maker for certain debt and equity security transactions, derivative instrument transactions, and foreign exchange transactions. The Company also uses derivatives to manage its interest rate and market risk from non-trading activities. The Company has policies and procedures to manage market risk associated with client trading and non-trading activities, and assumes a limited degree of market risk by managing the size and nature of its exposure. For valuation assumptions and additional information related to the Company's trading products and derivative instruments, see Note 13, "Derivative Financial Instruments," and the "Trading Assets and Derivative Instruments and Securities Available for Sale" section of Note 14, "Fair Value Election and Measurement."

Pledged trading assets are presented in the following table:

(Dollars in millions)	September 30, 2017	December 31, 2016
Pledged trading assets to secure repurchase agreements ¹	\$756	\$968
Pledged trading assets to secure certain derivative agreements	291	471
Pledged trading assets to secure other arrangements	51	40

¹ Repurchase agreements secured by collateral totaled \$721 million and \$928 million at September 30, 2017 and December 31, 2016, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

(Dollars in millions)	September 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$4,300	\$9	\$48	\$4,261
Federal agency securities	266	5	1	270
U.S. states and political subdivisions	558	9	4	563
MBS - agency	24,860	287	167	24,980
MBS - non-agency residential	59	4	1	62
MBS - non-agency commercial	747	6	3	750
ABS	6	2	—	8
Corporate and other debt securities	33	—	—	33
Other equity securities ¹	518	1	2	517
Total securities AFS	\$31,347	\$323	\$226	\$31,444

(Dollars in millions)	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	\$5,486	\$5	\$86	\$5,405
Federal agency securities	310	5	2	313
U.S. states and political subdivisions	279	5	5	279
MBS - agency	23,642	313	293	23,662
MBS - non-agency residential	71	3	—	74
MBS - non-agency commercial	257	—	5	252
ABS	8	2	—	10
Corporate and other debt securities	34	1	—	35
Other equity securities ¹	642	1	1	642
Total securities AFS	\$30,729	\$335	\$392	\$30,672

¹ At September 30, 2017, the fair value of other equity securities was comprised of the following: \$68 million of FHLB of Atlanta stock, \$403 million of Federal Reserve Bank of Atlanta stock, \$41 million of mutual fund investments, and \$5 million of other.

At December 31, 2016, the fair value of other equity securities was comprised of the following: \$132 million of FHLB of Atlanta stock, \$402 million of Federal Reserve Bank of Atlanta stock, \$102 million of mutual fund investments, and \$6 million of other.

The following table presents interest and dividends on securities AFS:

(Dollars in millions)	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Taxable interest	\$187	\$154	\$551	\$470
Tax-exempt interest	4	2	9	4
Dividends	4	3	13	9
Total interest and dividends on securities AFS	\$195	\$159	\$573	\$483

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, certain derivative agreements, and other funds had a fair value of \$3.3 billion and \$2.0 billion at September 30, 2017 and December 31, 2016, respectively.

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Notes to Consolidated Financial Statements (Unaudited), continued

The following table presents the amortized cost, fair value, and weighted average yield of investments in debt securities AFS at September 30, 2017, by remaining contractual maturity, with the exception of MBS and ABS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

(Dollars in millions)	Distribution of Remaining Maturities				Total
	Due in 1 Year or Less	Due After 1 Year through 5 Years	Due After 5 Years through 10 Years	Due After 10 Years	
Amortized Cost:					
U.S. Treasury securities	\$2,002	\$2,298	\$—		\$4,300
Federal agency securities	126	4	90		266
U.S. states and political subdivisions	6	46	179		