

SUNTRUST BANKS INC

Form 10-K

February 22, 2019

false--12-31FY20180000750556YesfalseLarge Accelerated FilerSUNTRUST BANKS

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noncontrolling interest of \$103 million and \$103 million at December?31, 2018 and December?31, 2017, respectively.Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral of \$1,442 million and \$1,086 million at December?31, 2018 and December?31, 2017,

respectively.Beginning October 1, 2018, the Company reclassified software and related accumulated amortization previously presented in Other assets to Premises, property, and equipment, net. Reclassifications have been made to previously reported amounts for comparability.Includes restricted shares of 7 thousand and 9 thousand at

December?31, 2018 and December?31, 2017, respectively.Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets. Reclassifications have been made to previously reported amounts for comparability.Includes securities AFS pledged as collateral where counterparties

have the right to sell or repledge the collateral of \$222 million and \$223 million at December?31, 2018 and December?31, 2017, respectively.Includes loans of consolidated VIEs of \$153 million and \$179 million at December?31, 2018 and December?31, 2017, respectively.Includes debt of consolidated VIEs of \$161 million and \$189 million at December?31, 2018 and December?31, 2017, respectively.

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission file number 001-08918

SunTrust Banks, Inc.

(Exact name of registrant as specified in its charter)

Georgia 58-1575035

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

303 Peachtree Street, N.E., Atlanta, Georgia 30308

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(800) 786-8787**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock	New York Stock Exchange
Depository Shares, Each Representing 1/4000 th Interest in a Share of Perpetual Preferred Stock, Series A	New York Stock Exchange
5.853% Fixed-to-Floating Rate Normal Preferred Purchase Securities of SunTrust Preferred Capital I (representing interests in shares of Perpetual Preferred Stock, Series B)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

The aggregate market value of the voting and non-voting common stock held by non-affiliates at June 29, 2018 was approximately \$30.2 billion based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the registrant has assumed that all of its directors and executive officers are affiliates.

At February 15, 2019, 443,255,088 shares of the registrant's common stock, \$1.00 par value, were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to Instruction G of Form 10-K, information in the registrant's Definitive Proxy Statement for its 2019 Annual Shareholder's Meeting, which it will file with the SEC no later than April 23, 2019 (the "Proxy Statement"), is incorporated by reference into Items 10-14 of Part III of this Form 10-K.

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GLOSSARY OF DEFINED TERMS

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

ABS — Asset-backed securities.

ACH — Automated clearing house.

AFS — Available for sale.

AIP — Annual Incentive Plan.

ALCO — Asset/Liability Committee.

ALM — Asset/Liability management.

ALLL — Allowance for loan and lease losses.

AML — Anti-money laundering.

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.

BB&T — BB&T Corporation.

BCBS — Basel Committee on Banking Supervision.

BHC — Bank holding company.

BHC Act — Bank Holding Company Act of 1956.

Board — the Company's Board of Directors.

bps — Basis points.

BRC — Board Risk Committee.

CC — Capital Committee.

CCAR — Comprehensive Capital Analysis and Review.

CCB — Capital conservation buffer.

CD — Certificate of deposit.

CDR — Conditional default rate.

CDS — Credit default swaps.

CEO — Chief Executive Officer.

CET1 — Common Equity Tier 1 Capital.

CFO — Chief Financial Officer.

CFPB — Consumer Financial Protection Bureau.

CFTC — Commodity Futures Trading Commission.

CIB — Corporate and investment banking.

C&I — Commercial and industrial.

CIO — Chief Information Officer.

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

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

CME — Chicago Mercantile Exchange.

Company — SunTrust Banks, Inc.

CP — Commercial paper.

CPP — Capital Purchase Program established by the U.S. Treasury.

CPR — Conditional prepayment rate.

CRA — Community Reinvestment Act of 1977.

CRE — Commercial real estate.

CRO — Chief Risk Officer.

CSA — Credit support annex.
DDA — Demand deposit account.
DIF — Deposit Insurance Fund.
Dodd-Frank Act — Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
DOJ — Department of Justice.
DTA — Deferred tax asset.

DTL — Deferred tax liability.
DVA — Debit valuation adjustment.
EBPC — Enterprise Business Practices Committee.
EGRRCPA — Economic Growth, Regulatory Relief, and Consumer Protection Act.
EPS — Earnings per share.
ERC — Enterprise Risk Committee.
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.
Form 8-K and tax reform-related items — items announced in the Company’s Form 8-K filed with SEC on December 4, 2017 and items related to the enactment of the 2017 Tax Act during the fourth quarter of 2017.
Freddie Mac — Federal Home Loan Mortgage Corporation.
FDIC — Federal Deposit Insurance Corporation.
Federal Reserve — Federal Reserve System.
Fed Funds — Federal funds.
FFIEC — Federal Financial Institutions Examination Council.
FHA — Federal Housing Administration.
FHLB — Federal Home Loan Bank.
FICA — Federal Insurance Contributions Act.
FICO — Fair Isaac Corporation.
FINRA — Financial Industry Regulatory Authority.
Fitch — Fitch Ratings Ltd.
FRB — Federal Reserve Board (Board of Governors of the Federal Reserve System).
FTE — Fully taxable-equivalent.
FVO — Fair value option.
Ginnie Mae — Government National Mortgage Association.
GLBA — Gramm-Leach-Bliley Act.
GSE — Government-sponsored enterprise.
HAMP — Home Affordable Modification Program.
HRA — Health Reimbursement Account.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
IRS — Internal Revenue Service.
ISDA — International Swaps and Derivatives Association.
LCH — LCH.Clearnet Limited.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFS — Loans held for sale.
LIBOR — London Interbank Offered Rate.
LOCOM — Lower of cost or market.
LTI — Long-term incentive.

LTV— Loan to value.

Mastercard — Mastercard International.

MBS — Mortgage-backed securities.

MD&A — Management’s Discussion and Analysis of Financial Condition and Results of Operation.

MI — Mortgage insurance.

Moody’s — Moody’s Investors Service.

MRA — Master Repurchase Agreement.

MRM — Market Risk Management.

i

MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NCF — National Commerce Financial Corporation.
NOL — Net operating loss.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.
NPR — Notice of proposed rulemaking.
NSFR — Net stable funding ratio.
NYSE — New York Stock Exchange.
OCC — Office of the Comptroller of the Currency.
OCI — Other comprehensive income.
OFAC — Office of Foreign Assets Control.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
PAC — Premium Assignment Corporation.
Parent Company — SunTrust Banks, Inc. (the parent Company of SunTrust Bank and other subsidiaries).
Patriot Act — The USA Patriot Act of 2001.
PD — Probability of default.
Pillar — substantially all of the assets of the operating subsidiaries of Pillar Financial, LLC.
PMC — Portfolio Management Committee.
PPNR — Pre-provision net revenue.
PWM — Private Wealth Management.
REIT — Real estate investment trust.
ROA — Return on average total assets.
ROE — Return on average common shareholders' equity.
ROTCE — Return on average tangible common shareholders' equity.
RSU — Restricted stock unit.

RWA — Risk-weighted assets.
S&P — Standard and Poor's.
SBA — Small Business Administration.
SBFC — SunTrust Benefits Finance Committee.
SEC — U.S. Securities and Exchange Commission.
SERP — Supplemental Executive Retirement Plan.
SIRC — Strategic Initiative Review Committee.
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.
TMC — Technology Management Committee.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the U.S.
U.S. Treasury — the U.S. Department of the Treasury.

UPB — Unpaid principal balance.

UTB — Unrecognized tax benefit.

VA — Veterans Administration.

VAR — Value at risk.

VEBA — Voluntary Employees' Beneficiary Association.

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.

VOE — Voting interest entity.

Important Cautionary Statement About Forward-Looking Statements

This Annual Report contains forward-looking statements. Statements regarding: (i) our proposed merger with BB&T (the “Merger”), including the expected timing of closing of the Merger; (ii) the potential effects of the proposed Merger with BB&T on our business and operations upon or prior to the consummation thereof; (iii) the effects on SunTrust if the Merger is not consummated; (iv) information regarding the combined business and operations of SunTrust and BB&T following the Merger, if consummated; (v) future levels of net interest margin, core personnel expenses, efficiency ratios, improvements in efficiency, the net charge-offs to total average LHF ratio, the ALLL to period-end LHF ratio, the provision for loan losses, capital ratios, and share repurchases; (vi) the amount and timing of our tangible efficiency target; (vii) the continued trend of client migration from lower cost deposits to CDs; (viii) future trends or increases in deposit costs; (ix) contemplation of a potential preferred stock issuance; (x) future success in our capital markets business; (xi) future Wholesale segment pipelines and positioning to meet client needs; (xii) future changes in the size and composition of the investment securities portfolio; (xiii) the estimated impacts of proposed regulatory capital rules and changes in banking laws, rules, and regulations; (xiv) the impact of a shift in interest rates on our MVE; (xv) future impacts of ASUs not yet adopted; and (xvi) our future credit ratings and outlook, are forward-looking statements. Also, any statement that does not describe historical or current facts is a forward-looking statement. These statements often include the words “believe,” “expect,” “anticipate,” “estimate,” “intend,” “target,” “forecast,” “future,” “strategy,” “goal,” “initiative,” “plan,” “propose,” “opportunity,” “potentially,” “probably,” “project,” “outlook,” or similar expressions or future conditional verbs such as “may,” “will,” “should,” “would,” and “could.” Such statements are based upon the current beliefs and expectations of management and on information currently available to management. They speak as of the date hereof, and we do not assume any obligation to update the statements made herein or to update the reasons why actual results could differ from those contained in such statements in light of new information or future events.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in Part I, Item 1A, “Risk Factors,” in this Form 10-K. Such factors include: failure to complete the merger with BB&T (the “Merger”) could negatively impact our stock price and our future business and financial results; we will be subject to uncertainties while the Merger is pending, which could adversely affect our business; the Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed; because the market price of BB&T Common Stock may fluctuate, our shareholders cannot be certain of the precise value of the merger consideration they may receive in the Merger; our ability to complete the Merger is subject to the receipt of approval

from various federal and state regulatory agencies, which may impose conditions that could adversely affect us or cause the Merger to be abandoned; shareholder litigation could prevent or delay the closing of the proposed Merger or otherwise negatively impact our business and operations; current or future legislation or regulation could require us to change our business practices, reduce revenue, impose additional costs, or otherwise adversely affect business operations or competitiveness; we are subject to stringent capital adequacy and liquidity requirements and our failure to meet these would adversely affect our financial condition; the monetary and fiscal policies of the federal government and its agencies could have a material adverse effect on our earnings; our financial results have been, and may continue to be, materially affected by general economic conditions, and a deterioration of economic conditions or of the financial markets may materially adversely affect our lending activity or other businesses, as well as our financial condition and results; changes in market interest rates or capital markets could adversely affect our revenue and expenses, the value of assets and obligations, as well as the availability and cost of capital and liquidity; interest rates on our outstanding and future financial instruments might be subject to change based on regulatory developments, which could adversely affect our revenue, expenses, and the value of those financial instruments; our earnings may be affected by volatility in mortgage production and servicing revenues, and by changes in carrying values of our servicing assets and mortgages held for sale due to changes in interest rates; disruptions in our ability to

access global capital markets and other sources of wholesale funding may adversely affect our capital resources and liquidity; we are subject to credit risk; we may have more credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral; we rely on the mortgage secondary market and GSEs for some of our liquidity; loss of customer deposits could increase our funding costs; any reduction in our credit rating could increase the cost of our funding from the capital markets; we are subject to litigation, and our expenses related to this litigation may adversely affect our results; we may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations; we are subject to certain risks related to originating and selling mortgages, and may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, or borrower fraud, and this could harm our liquidity, results of operations, and financial condition; we face risks as a servicer of loans; consumers and small businesses may decide not to use banks to complete their financial transactions, which could affect our revenue; we have businesses other than banking which subject us to a variety of risks; negative public opinion could damage our reputation and adversely impact business and revenues; we may face more intense scrutiny of our sales, training, and incentive compensation practices; we rely on other companies to provide key components of our business infrastructure; competition in the financial services industry is intense and we could lose

business or suffer margin declines as a result; we continually encounter technological change and must effectively develop and implement new technology; maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services; we have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits; we depend on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer; we may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of changes in the marketplace, both of which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategies; our framework for managing risks may not be effective in mitigating risk and loss to us; our controls and procedures may not prevent or detect all errors or acts of fraud; we are at risk of increased losses from fraud; our operational or communications systems or infrastructure may fail or may be the subject of a breach or cyber-attack that, if successful, could

adversely affect our business or disrupt business continuity; a disruption, breach, or failure in the operational systems or infrastructure of our third party vendors or other service providers, including as a result of cyber-attacks, could adversely affect our business; natural disasters and other catastrophic events could have a material adverse impact on our operations or our financial condition and results; the soundness of other financial institutions could adversely affect us; we depend on the accuracy and completeness of information about clients and counterparties; our accounting policies and processes are critical to how we report our financial condition and results of operation, and they require management to make estimates about matters that are uncertain; depressed market values for our stock and adverse economic conditions sustained over a period of time may require us to write down all or some portion of our goodwill; our stock price can be volatile; we might not pay dividends on our stock; our ability to receive dividends from our subsidiaries or other investments could affect our liquidity and ability to pay dividends; and certain banking laws and certain provisions of our articles of incorporation may have an anti-takeover effect.

PART I**Item 1. BUSINESS****General**

SunTrust Banks, Inc. (“we,” “us,” “our,” “SunTrust,” or “the Company”) is a leading provider of financial services, with our headquarters located in Atlanta, Georgia. We are an organization driven by our Company purpose of *Lighting the Way to Financial Well-Being* — helping instill a sense of confidence in the financial circumstances of clients, communities, teammates, and owners is at the center of everything we do. Our principal subsidiary is SunTrust Bank (“the Bank”). The Company was incorporated in the State of Georgia in 1984 and offers a full line of financial services for consumers, businesses, corporations, institutions, and not-for-profit entities, both through branches (located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia) and through other digital and national delivery channels. The Bank offers deposit, credit, mortgage banking, and trust and investment services to its clients through a selection of full-, self-, and assisted-service channels, including branch, call center, Teller Connect™ machines, ATMs, online, mobile, and tablet. Other subsidiaries provide capital markets, securities brokerage, investment banking, and wealth management services. At December 31, 2018, the Company had total assets of \$216 billion and total deposits of \$163 billion.

We operate two business segments: Consumer and Wholesale, with functional activities included in Corporate Other. Additional information regarding our businesses and subsidiaries, including the merger of our STM and Bank legal entities in the third quarter of 2018, is included in the information set forth in Item 7, MD&A, as well as Note 22, “Business Segment Reporting,” to the Consolidated Financial Statements in this Form 10-K.

Merger Agreement with BB&T

On February 7, 2019, SunTrust entered into an Agreement and Plan of Merger (the “Merger Agreement”) with BB&T Corporation (“BB&T”), a North Carolina corporation. The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, SunTrust will merge with and into BB&T (the “Merger”), with BB&T as the surviving entity in the Merger. Immediately following the Merger, SunTrust’s wholly owned subsidiary, SunTrust Bank, will merge with and into BB&T’s wholly owned subsidiary, Branch Banking and Trust Company (the “Bank Merger”), with Branch Banking and Trust Company as the surviving entity in the Bank Merger. The Merger Agreement was unanimously approved by the Board of Directors of each of BB&T and SunTrust.

Upon the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each issued share of common stock, par value \$1.00 per share, of SunTrust (“SunTrust Common Stock”) that is outstanding immediately prior to the Effective Time, other than certain shares held by SunTrust or BB&T, will be converted into the right to receive 1.295 shares of common stock (the “Exchange Ratio”), par value \$5.00 per share, of BB&T (“BB&T

Common Stock”). Holders of SunTrust Common Stock will receive cash in lieu of fractional shares.

At the Effective Time, (i) each outstanding share of perpetual preferred stock, Series A, Series B, Series F, Series G and Series H, of SunTrust (collectively, “SunTrust Preferred Stock”) will be converted into the right to receive one share of an applicable newly issued series of BB&T preferred stock having the same terms as such share of SunTrust Preferred Stock, and (ii) each outstanding SunTrust equity award granted under SunTrust’s equity compensation plans will be converted into a corresponding award with respect to BB&T Common Stock, with the number of shares underlying such award (and, in the case of stock options, the applicable exercise price) adjusted based on the Exchange Ratio. Each such BB&T equity award will continue to have the same terms and conditions as applied to the corresponding SunTrust equity award, except that, in the case of SunTrust performance stock unit awards, the number of shares underlying the converted BB&T equity award will be fixed based on actual performance for the portion of the applicable performance period through the Effective Time and target performance for the balance of the applicable performance period and such award will continue to vest after the Effective Time solely based on continued service. The Merger Agreement also provides, among other things, that as of the Effective Time, Kelly S. King, the current Chairman and Chief Executive Officer of BB&T, will continue to serve as Chairman and Chief Executive Officer of the surviving entity and of the surviving bank until September 12, 2021, at which time he will serve as Executive

Chairman of the surviving entity and the surviving bank until March 12, 2022. The Merger Agreement also provides that, as of the Effective Time, William H. Rogers, Jr., the current Chairman and Chief Executive Officer of SunTrust, will be appointed as a director and as President and Chief Operating Officer of the surviving entity and the surviving bank and will serve in such role until Mr. King is no longer serving as Chief Executive Officer of the surviving entity or the surviving bank, at which time Mr. Rogers will become Chief Executive Officer of the surviving entity and the surviving bank. Mr. Rogers will also become Chairman of the board of directors of the surviving entity and the surviving bank at such time as Mr. King is no longer serving as Executive Chairman. In addition, the board of directors of the surviving entity will be comprised of 22 directors, of which 11 will be former members of the Board of SunTrust and of which 11 will be former members of the board of directors of BB&T.

The Merger Agreement contains customary representations and warranties from both BB&T and SunTrust, and each party has agreed to customary covenants, including, among others, covenants relating to (1) the conduct of its business during the interim period between the execution of the Merger Agreement and the Effective Time, (2) its obligation to call a meeting of its shareholders to adopt the Merger Agreement, and, subject to certain exceptions, to recommend that its shareholders adopt the Merger Agreement, and (3) its non-solicitation obligations related to alternative acquisition proposals.

The completion of the Merger is subject to customary conditions, including (1) adoption of the Merger Agreement by SunTrust's shareholders and by BB&T's shareholders, (2) authorization for listing on the NYSE of the shares of BB&T Common Stock to be issued in the Merger, subject to official notice of issuance, (3) the receipt of required regulatory approvals, including the approval of the FRB, the FDIC, the North Carolina Commissioner of Banks and the Georgia Department of Banking and Finance, (4) effectiveness of the registration statement on Form S-4 for the BB&T Common Stock to be issued in the Merger, and (5) the absence of any order, injunction, decree or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal. Each party's obligation to complete the Merger is also subject to certain additional customary conditions, including (a) subject to certain exceptions, the accuracy of the representations and warranties of the other party, (b) performance in all material respects by the other party of its obligations under the Merger Agreement and (c) receipt by such party of an opinion from its counsel to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Merger Agreement provides certain termination rights for both BB&T and SunTrust and further provides that a termination fee of \$1.121 billion will be payable by either BB&T or SunTrust, as applicable, upon termination of the Merger Agreement under certain circumstances.

Please refer to Item 1A, "Risk Factors—Merger-related Risks," for a discussion of certain risks related to our proposed Merger with BB&T.

Regulation and Supervision

We are limited under the BHC Act to banking, managing or controlling banks, and other activities that the FRB has determined to be closely related to banking. The Company, a BHC, elected to become a financial holding company pursuant to the GLBA, allowing it to engage in a broader range of activities that are (i) financial in nature or incidental to financial activities or (ii) complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system in general. These expanded services include securities underwriting and dealing, insurance underwriting, merchant banking, and insurance company portfolio investment, and are subject to the Volcker Rule and other restrictions discussed below.

As a financial holding company, the Company and its banking subsidiary are required to be "well capitalized" and "well managed" while maintaining at least a "satisfactory" CRA rating. In the event of noncompliance, the Federal Reserve may, among other things, limit the Company's ability to conduct these broader financial activities or, if the deficiencies persist, may require the Company to divest its banking subsidiary. Furthermore, if the Company does not have a satisfactory CRA rating, it may not commence any new financial activities, although the Company will still be allowed to engage in activities closely related to banking.

The Federal Reserve regulates BHCs under the BHC Act, with residual supervisory authority over "functionally regulated" subsidiaries such as the Company's broker-dealer and investment

adviser subsidiaries. Our non-banking subsidiaries are regulated by various other regulatory bodies with supervisory authority over the particular activities of those subsidiaries. For example, STRH and STIS are broker-dealers registered with the SEC and members of FINRA, and STAS is an investment advisor registered with the SEC. STIS is also an insurance agency registered with various state insurance departments.

The Bank is an FDIC-insured commercial bank chartered under the laws of the State of Georgia and is a member of the Federal Reserve System. In addition to regulation by the FRB, the Bank and the Company are regulated by the Georgia Department of Banking and Finance. The FDIC also has jurisdiction over certain activities of the Bank as an insured depository institution. As a Georgia-chartered commercial bank, the Bank's powers are limited to activities permitted by Georgia and federal banking laws. Generally, the Bank may engage in all usual banking activities, such as taking deposits, lending money, issuing letters of credit, currency trading, and offering safe deposit box services. As an umbrella supervisor under the GLBA's system of functional regulation, the FRB requires that financial holding companies operate in a safe and sound manner so that their financial condition does not threaten the viability of affiliated depository institutions.

The Dodd-Frank Act, among other things, implemented changes that affected the oversight and supervision of financial institutions, provided for a new resolution procedure for large financial companies, created the CFPB, introduced more stringent regulatory capital requirements and significant changes in the regulation of OTC

derivatives, reformed the regulation of credit rating agencies, increased controls and transparency in corporate governance and executive compensation practices, incorporated the Volcker Rule, required registration of advisers to certain private funds, and influenced significant changes in the securitization market. Dodd-Frank Act requirements typically apply to BHCs with greater than \$10 billion of consolidated assets, and the requirements increase at certain asset size thresholds (most notably, \$50 billion of consolidated assets and \$250 billion of consolidated assets). In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law which amends provisions in the Dodd-Frank Act as discussed in the “Enhanced Prudential Standards” section below.

Enhanced Prudential Standards

BHCs with consolidated assets of \$50 billion or more have been subject to enhanced prudential standards and capital requirements. The Dodd-Frank Act directs the FRB to establish heightened prudential standards for (i) risk-based capital requirements and leverage limits, (ii) liquidity risk management requirements, (iii) overall risk management requirements, (iv) stress testing, (v) resolution planning, (vi) credit exposure and concentration limits, and (vii) early remediation actions that must be taken under certain conditions in the early stages of financial distress.

In February 2014, the FRB adopted a final rule implementing enhanced liquidity and risk management requirements. This rule requires greater supervision and oversight of liquidity and general risk management by boards of

directors and includes capital planning and stress testing requirements. In addition, the rule requires publicly traded U.S. BHCs with total consolidated assets of \$10 billion or more to establish enterprise-wide risk committees. In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) amended provisions in the Dodd-Frank Act and other statutes administered by the FRB. Among these amendments are provisions to tailor applicability of certain of the enhanced prudential standards, and to increase the \$50 billion asset threshold in Section 165 of the Dodd-Frank Act to \$250 billion. The EGRRCPA increases the \$50 billion asset threshold in two stages. Immediately on the date of enactment, BHCs with total consolidated assets of less than \$100 billion were no longer subject to Section 165. Eighteen months after the date of enactment, the threshold is raised to \$250 billion. The EGRRCPA also provides that the FRB may apply any enhanced prudential standard to BHCs between \$100 billion and \$250 billion in total consolidated assets, subject to various qualifications and conditions. In October 2018, the OCC, FRB, and FDIC issued a joint NPR to address the tailoring provided for in the EGRRCPA for U.S. banking organizations with more than \$100 billion in total consolidated assets, based on four risk categories. The proposal reflects the primary changes effected by the EGRRCPA in the applicability of the Section 165 enhanced prudential standards to each category. As a Category IV banking organization, which includes banking organizations in the \$100 to \$250 billion in total assets range, the Company would be exempted from the Dodd-Frank Act company-run stress testing requirement, and would be subject to biennial supervisory stress-testing. Additionally, the Company would no longer be required to comply with the LCR though it would continue to be subject to modified liquidity risk management requirements, quarterly internal liquidity stress testing, and a liquidity buffer requirement. The applicability of these enhanced prudential standards and certain others effected by the EGRRCPA remains subject to regulatory uncertainty as the FRB has yet to propose rules and to issue guidance on various specific aspects of their applicability and associated reporting. In February 2019, the FRB announced relief to certain less-complex BHCs as discussed in the “Capital Planning and Stress Testing” section below.

Enhanced Capital Standards

In July 2013, the U.S. banking regulators promulgated final rules substantially implementing the Basel III capital framework and various Dodd-Frank Act provisions (the “Capital Rules”). The Capital Rules increased regulatory capital requirements of U.S. banking organizations and revised the level at which the Bank becomes subject to corrective action as described in the “Prompt Corrective Action” section below. The “Collins” amendment to the Dodd-Frank Act required federal banking regulators to impose a generally applicable leverage capital ratio regardless of institution size and to phase out certain “hybrid” capital elements from Tier 1 capital treatment. The Company became subject to the Capital Rules on January 1, 2015. For additional information regarding the Capital Rules, including recent updates and/or changes to the rules and related requirements,

refer to the "Capital Resources" section of Item 7, MD&A, in this Form 10-K.

Distributions

There are various legal and regulatory limits on the extent to which the Bank may pay dividends or otherwise supply funds to its Parent Company. Federal and state bank regulatory agencies have the authority to prevent the Bank from paying dividends or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice. Restrictions on capital distributions, share repurchases and redemptions, and discretionary bonus payments to executive officers are imposed on banks and their parent companies that are unable to sustain the capital conservation buffer above the minimum CET1, Tier 1, and Total capital ratios. The capital conservation buffer is an amount above the minimum levels designed to ensure that banks remain well-capitalized, even in adverse economic scenarios.

See additional discussion of Basel III in the “Capital Resources” section of Item 7, MD&A, in this Form 10-K.

Mandatory Liquidity Coverage Ratio and Net Stable Funding Ratio

In September 2014, the FRB, OCC, and the FDIC approved rulemaking that established, for the first time, a quantitative minimum LCR for large, internationally active banking organizations, and a less stringent LCR (“modified

LCR”) for BHCs with less than \$250 billion in total assets, such as the Company. The LCR requires a banking entity to maintain sufficient liquidity to withstand an acute 30-day liquidity stress scenario. The LCR became effective for the Company on January 1, 2016, with a minimum requirement of 90% of high-quality, liquid assets to total net cash outflows. Full compliance of 100% was required beginning January 1, 2017. The Company has met LCR requirements within the regulatory timelines and at December 31, 2018, its LCR was above the 100% regulatory requirement.

On December 19, 2016, the FRB published the final rule, promulgated as Regulation WW, which requires us to publicly disclose qualitative and quantitative information, with certain qualifications and permitted limitations related to information that is proprietary or confidential to the Company, about (i) certain components of our LCR calculation in a standardized tabular format (LCR disclosure template) and (ii) factors that have significant effect on the LCR, to facilitate an understanding of our calculations and results. The rule aims to promote market discipline by providing the public with comparable liquidity information about covered companies. The disclosures must be made on a covered company's public internet site or in a public financial or regulatory report. The disclosures must remain available to the public for at least five years from the time of initial disclosure. Covered companies subject to modified LCR, including the Company, were required to comply with disclosure requirements under this final rule for quarterly periods ending after October 1, 2018. The LCR disclosure can be found on the Company's investor relations website at <http://investors.suntrust.com>.

On May 3, 2016, the FRB, OCC, and the FDIC proposed a rule to implement the NSFR. The proposal would require large U.S. banking organizations to maintain a stable funding profile

over a one-year horizon. The FRB proposed a modified NSFR requirement for bank holding companies with greater than \$50 billion but less than \$250 billion in total consolidated assets and less than \$10 billion in total on balance sheet foreign exposure. As proposed, the rule would require us to publicly disclose our NSFR and the components of the NSFR each calendar quarter. The agencies intend the NSFR to complement the LCR, liquidity risk management, and stress testing requirements under the FRB's Regulation YY (enhanced prudential standards for BHCs with total consolidated assets of \$50 billion or more). The proposed rule contains an implementation date of January 1, 2018; however, a final rule has not yet been issued.

As discussed in the "Enhanced Prudential Standards" section above, in October 2018, the OCC, FRB, and FDIC issued a joint NPR to tailor the application of the enhanced prudential standards. Under the proposal, four categories of standards would be applied to U.S. banking organizations based on size, complexity and other risk-based factors. If the NPR is finalized as proposed, the Company, classified as Category IV, would no longer be subject to the mandatory LCR and the proposed NSFR. Internal liquidity stress testing, liquidity buffer, and liquidity risk management requirements would still apply.

See additional discussion of the LCR and NSFR in the "Liquidity Risk Management" section of Item 7, MD&A, in this Form 10-K.

Capital Planning and Stress Testing

Pursuant to the Dodd-Frank Act, BHCs are required to conduct company-run stress tests and are subject to supervisory stress tests conducted by the FRB. BHCs with more than \$10 billion in total consolidated assets must conduct an annual company-run stress test, and those with total consolidated assets exceeding \$50 billion must conduct an additional mid-cycle stress test. For company-run stress tests, BHCs use the same planning horizon, capital action assumptions, and scenarios as those used in the supervisory stress tests. Stress testing is designed to assess whether the covered company's capital is sufficient to absorb losses during stressful conditions, while meeting obligations to creditors and counterparties, and, to the extent applicable, continuing to serve as credit intermediaries. The Company also is subject to supervisory stress testing requirements under the FRB's Capital Plan Rule, which the FRB implements as part of its CCAR process. CCAR is a broad supervisory program that includes stress testing and assesses a covered company's practices for determining capital needs, including its risk measurement and management practices, capital planning and decision-making, and associated internal controls and governance. The Company is required to publish a summary of the results of its annual stress test, and the FRB publishes the results of the stress testing under adverse and severely adverse scenarios.

The Capital Plan Rule finalized in late 2011 requires a U.S. BHC with consolidated assets of \$50 billion or more to develop and maintain a capital plan that is reviewed and approved by its board of directors or a committee thereof. Capital plans are intended to allow the FRB to assess the BHC's systems and processes of incorporating forward-looking projections of assets and liabilities, revenues and losses, and to monitor and maintain their internal capital adequacy. Under the Capital Plan Rule, each

capital plan must address, among other capital actions, projected capital ratios under stress scenarios, planned dividends and other capital distributions, and share repurchases over a minimum nine quarter planning horizon. Prior to implementing a capital plan, a non-objection notification must be received from the FRB. If the FRB objects to our capital plan, we may not make certain capital distributions until the FRB's non-objection to the distribution is received.

In January 2017, the FRB released a final rule that revised capital plan and stress test rules, whereby certain BHCs with less than \$250 billion in total consolidated assets, including the Company, are no longer subject to the qualitative component of the FRB's annual CCAR. The final rule also modified certain regulatory reports to collect additional information on nonbank assets and to reduce reporting burdens for large and noncomplex firms.

As discussed in the "Enhanced Prudential Standards" section above, in October 2018, the OCC, FRB, and FDIC issued a joint NPR to tailor the application of the enhanced prudential standards. Under the proposal, four categories of standards would be applied to U.S. banking organizations based on size, complexity and other risk-based factors. If the NPR is finalized as proposed, the Company, classified as Category IV, would no longer be required to conduct company-run stress tests nor to conduct mid-cycle stress tests. The Company would be subject to biennial supervisory

stress tests and would still be required to submit an annual capital plan.

In February 2019, the FRB announced that certain less-complex BHCs with less than \$250 billion in assets, including the Company, would not be subject to supervisory stress testing, company-run stress testing, or CCAR for 2019.

For additional information regarding Capital Planning and Stress Testing, refer to the “Capital Resources” section of Item 7, MD&A, in this Form 10-K.

Regulatory Regime for Swaps

The Dodd-Frank Act established a new comprehensive regulatory regime for the OTC swaps market, aimed at increasing transparency and reducing systemic risk in the derivatives markets, including requirements for central clearing, exchange trading, capital, margin, reporting, and recordkeeping. The Dodd-Frank Act requires that certain swap dealers register with one or both of the SEC and CFTC, depending on the nature of the swaps business. The Bank provisionally registered with the CFTC as a swap dealer, subjecting the Bank to new requirements under this regulatory regime including trade reporting and record keeping requirements, margin requirements, business conduct requirements (including daily valuations, disclosure of material risks associated with swaps and disclosure of material incentives and conflicts of interest), and mandatory clearing and exchange trading requirements for certain standardized swaps designated by the CFTC. Subject to the SEC's finalization of certain rules applicable to security-based swaps, which the SEC has re-proposed and remain in flux, the Bank expects to register with the SEC as a security-based swap dealer. Such registration will subject the Bank's security-based swaps business to similar Dodd-Frank Act requirements, including trade reporting, business conduct standards, recordkeeping, margin, and potentially mandatory clearing and exchange requirements. In

2020, our derivatives business involving uncleared swaps is expected to become subject to initial margin requirements established by the FRB, which may exceed current market practice.

Resolution Planning

BHCs with total consolidated assets of \$50 billion or more must submit resolution plans to the FRB and FDIC addressing the company's strategy for rapid and orderly resolution in case of material financial distress or failure. The FRB and FDIC have widely promoted resolution plans as core elements of reforms intended to mitigate risks to the U.S. financial system and to end the “too big to fail” status of the largest financial institutions. Covered institutions are expected to file their resolution plans annually or at the direction of regulators, regardless of the financial condition or nature of operations of the institution. If a plan is not credible, the Company and the Bank may be restricted in expansionary activities, or be subjected to more stringent capital, leverage, or liquidity requirements. The Company and the Bank submitted resolution plans to the FRB and FDIC in December 2015. During 2016, the FRB and FDIC waived the covered financial institutions' requirement to file their resolution plans. The FRB and FDIC provided feedback regarding the Company's and the Bank's 2015 resolution plans during 2017. The Company submitted its updated resolution plan to the FRB in December 2017. The Bank updated its resolution plan to be responsive to feedback received and submitted it to the FDIC in June 2018.

The FDIC issued a final rule in November 2016 requiring insured depository institutions with more than two million deposit accounts to create and maintain comprehensive and detailed deposit account records to facilitate the determination of FDIC insured deposits in the event of a bank failure. Under the rule, the FDIC must be able to use the failing bank's systems, data, and staff to calculate the insured and uninsured amounts for each depositor and place holds on portions of uninsured deposits. The Bank will be required to be in compliance with this rule by May 2020.

Deposit Insurance

The Bank's depositors are insured by the FDIC up to the applicable limits, which is currently \$250,000 per account ownership type. The FDIC provides deposit insurance through the DIF, which the FDIC maintains by assessing depository institutions, including the Bank, an insurance premium. The Dodd-Frank Act changed the statutory regime governing the DIF. By September 30, 2020, the FDIC must increase the amount in the DIF to 1.35% of insured deposits, impose a premium on banks to reach this goal, and offset the effect of assessment increases for institutions with less than \$10 billion in total consolidated assets. In March 2016, the FDIC issued a final rule to address this surcharge on banks by collecting those premiums from banks with more than \$10 billion in consolidated assets. This surcharge began in the third quarter of 2016. In November 2018, the FDIC announced that the DIF reached the 1.35% target threshold and that the surcharge would be discontinued effective with the fourth quarter of 2018 assessment.

Source of Strength

FRB policy requires BHCs to act as a source of financial strength to each subsidiary bank and to commit resources to support each subsidiary. This policy was codified in the Dodd-Frank Act, though no regulations have been proposed to define the scope of this financial support.

Anti-Money Laundering (“AML”), PATRIOT ACT; OFAC Sanctions

Anti-money laundering measures and economic sanctions have long been a matter of regulatory focus in the U.S. The Currency and Foreign Transactions Reporting Act of 1970, commonly referred to as the “Bank Secrecy Act” or “BSA,” requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering by imposing various reporting and recordkeeping requirements on financial institutions. Passage of the Patriot Act renewed and expanded this focus, extending greatly the breadth and depth of anti-money laundering measures required under the BSA. The Patriot Act requires all financial institutions to establish certain anti-money laundering compliance and due diligence programs, including enhanced due diligence policies, procedures, and controls for certain types of relationships deemed to pose heightened risks. In cooperation with federal banking regulatory agencies, the Financial Crimes Enforcement Network (“FinCEN”) is responsible for implementing, administering, and enforcing BSA compliance.

Federal banking regulators and FinCEN continue to emphasize their expectation that financial institutions establish and implement robust BSA/AML compliance programs. Consistent with this supervisory emphasis, in August 2014, FinCEN issued an advisory stressing its expectations for financial institutions' BSA/AML compliance programs,

including specific governance, staffing and resource allocation, and testing and monitoring requirements. Furthermore, FinCEN proposed a rule that would require financial institutions to obtain beneficial ownership information from all legal entities with which they conduct business.

OFAC has primary responsibility for administering and enforcing economic and trade sanctions, which are broad-based measures, derived from U.S. foreign policy and national security objectives. These sanctions are imposed on designated foreign countries and persons, terrorists, international narcotics traffickers, and persons involved in activities relating to proliferation of weapons of mass destruction. While the sanctions laws are separate from the BSA and AML laws, these regimes overlap in purpose. All U.S. persons must comply with U.S. sanctions laws. The Company must ensure that its operations, including its provision of services to clients, are designed to ensure compliance with U.S. sanctions laws. Among other things, the Company must block accounts of, and transactions with, sanctioned persons and report blocked transactions after their occurrence.

Over the past several years, federal banking regulators, FinCEN, and OFAC have increased supervisory and enforcement attention on U.S. anti-money laundering and sanctions laws, as evidenced by a significant increase in enforcement activity, including several high profile enforcement actions. Several of these actions have addressed violations of

AML laws, U.S. sanctions laws, or both, resulting in the imposition of substantial civil monetary penalties. In both the BSA/AML and sanctions areas, enforcement actions have increasingly focused on publicly identifying individuals and holding those individuals, including compliance officers, accountable for deficiencies in BSA/AML compliance programs. State attorneys general and the DOJ have also pursued enforcement actions against banking entities alleged to have willfully violated AML and U.S. sanctions laws.

Consumer Financial Protection

The CFPB, established by the Dodd-Frank Act, has broad rulemaking, supervisory, and enforcement powers under various federal consumer financial protection laws. Furthermore, the CFPB is authorized to engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to under-served consumers and communities. The CFPB has primary examination and enforcement authority over institutions with assets of \$10 billion or more. We are subject to a number of federal and state consumer protection laws, including the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, the Military Lending Act, and these laws' respective state-law counterparts. The Company also is subject to federal and state laws regarding unfair and deceptive acts and practices. Violations of applicable consumer protection laws can result in significant liability from litigation brought by customers, including actual damages, restitution, and attorneys' fees. In addition, federal bank regulators, state attorneys general, and state and local consumer protection agencies may pursue remedies, such as imposition of regulatory sanctions and penalties, restrictions on expansionary activities, and requiring customer rescission rights.

Prompt Corrective Action

The federal banking agencies have broad powers with which to require companies to take prompt corrective action to resolve problems of insured depository institutions that do not meet minimum capital requirements. The law establishes five capital categories for this purpose: (i) well-capitalized, (ii) adequately capitalized, (iii) undercapitalized, (iv) significantly undercapitalized, and (v) critically undercapitalized. The Capital Rules amended the thresholds in the prompt corrective action framework to reflect the higher capital ratios required in the Capital Rules. Under the Capital Rules, to be considered well-capitalized, an institution generally must have risk-based Total capital and Tier 1 capital ratios of at least 10% and 6%, respectively, and must not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. While the prompt corrective action rules apply to banks and not BHCs, the FRB is authorized to take actions at the holding company level. The banking regulatory agencies are required to take mandatory supervisory actions and have the discretion to take other actions, as to insured depository institutions in the three undercapitalized categories, the severity

of which depends on the assigned capital category. For example, an insured depository institution is generally prohibited from paying dividends or making capital distributions if it would be undercapitalized as a result. An undercapitalized institution must submit a capital restoration plan, which must be guaranteed up to certain amounts by its parent holding company. Significantly undercapitalized institutions may be subject to various requirements and restrictions, such as mandates to sell voting stock, reduce total assets, and limit or prohibit the receipt of correspondent bank deposits. Critically undercapitalized institutions are subject to appointment of a receiver or conservator.

Volcker Rule

Through the "Volcker Rule" and its implementing regulations, banking entities such as the Company and its affiliates are prohibited from engaging in proprietary trading and investing in, sponsoring, or having certain other relationships with, a private equity, hedge fund, or certain other types of private funds. There are limited exceptions to the prohibition on proprietary trading, such as trading in certain U.S. government or agency securities, engaging in certain underwriting or market-making activities, and certain hedging activities. There are also limited exceptions to the prohibitions on certain activities with covered private funds, such as for certain activities in connection with a banking entity's bona fide trust, fiduciary, or investment advisory business, as well as in connection with public welfare activities including low income housing finance. All permitted activities are subject to applicable federal or state laws,

restrictions or limitations that may be imposed by the regulator, including capital and quantitative limitations as well as diversification requirements, and must not, among other things, pose a threat to the safety and soundness of the banking entity or the financial stability of the U.S. The Volcker Rule also imposes extensive internal controls and recordkeeping requirements on banking organizations to ensure their compliance with the Volcker Rule. While regulators are revisiting certain aspects of the requirements of the Volcker Rule, including potentially less burdensome requirements for regional banks such as the Bank, such proposals are at a preliminary stage, are subject to change and it remains uncertain if they will be implemented.

Branching

The Dodd-Frank Act relaxed interstate branching restrictions by modifying the federal statute governing de novo interstate branching by state member banks. Consequently, a state member bank may open its initial branch in a state outside of the bank's home state by way of an interstate bank branch, so long as a bank chartered under the laws of that state would be permitted to open a branch at that location.

Restrictions on Affiliate Transactions

There are limits and restrictions on transactions between the Bank and its subsidiaries, on the one hand, and the Company and other Company subsidiaries, on the other hand. Sections 23A and 23B of the Federal Reserve Act and FRB's Regulation W, among other things, govern terms and conditions and limit the amount of extensions of credit, and the amount of collateral required to secure extensions of credit, by the Bank and its

subsidiaries to the Company and other Company subsidiaries and limit purchases of assets by the Bank and its subsidiaries from the Company and other Company subsidiaries. The Dodd-Frank Act significantly enhanced and expanded the scope and coverage of the limitations imposed by Sections 23A and 23B, specifically, by including derivative transactions as credit extensions subject to Sections 23A and 23B. Furthermore, the Dodd-Frank Act requires that conforming collateral be maintained for the duration of covered transactions, rather than only at the time of the transaction. The FRB has increased its scrutiny of Regulation W transactions and has supported its supervision over Regulation W compliance with information received through the resolution planning process. The FRB has yet to amend Regulation W or provide guidance in light of the Dodd-Frank Act's changes to Sections 23A and 23B of the Federal Reserve Act.

Incentive Compensation

In 2010, the FRB and other regulators jointly published final guidance for structuring incentive compensation arrangements at financial organizations. The guidance does not set forth any formulas or pay caps but contains certain principles that companies are required to follow with respect to employees and groups of employees that may expose the company to material amounts of risk. The three primary principles are (i) balanced risk-taking incentives, (ii) compatibility with effective controls and risk management, and (iii) strong corporate governance. The FRB monitors compliance with this guidance as part of its safety and soundness oversight.

In 2016, the FRB, SEC, and other regulators jointly published proposed rules on incentive compensation under Section 956 of the Dodd-Frank Act. The proposed rules would impose several substantive requirements on the form of our incentive compensation, including (i) requiring that incentive compensation payable to a “senior executive officer” or “significant-risk taker” be subject to a 7-year clawback requirement; (ii) requiring a substantial portion of incentive compensation payable to a “senior executive officer” or “significant-risk taker” to be deferred and subject to the risks of downward adjustment and forfeiture; (iii) prohibiting the acceleration of incentive compensation that is required to be deferred, other than in the event of death or disability; (iv) limiting the amount of incentive compensation payable to “senior executive officers” and “significant risk-takers” for the attainment of performance measures in excess of target measures (to 125% and 150% of the target amount for “senior executive officers” and “significant risk-takers,” respectively); and (v) requiring the implementation of an independent risk management framework. Most of the federal regulatory agencies charged with jointly implementing Section 956 of the Dodd-Frank Act have not included a reference to these proposed rules in their most recent regulatory agendas. As a result, it is not certain if or when the final rules will be issued.

Privacy and Cybersecurity

We are subject to many U.S. federal, state, and other laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of our customers. The GLBA requires us to periodically disclose our

privacy policies and practices relating to sharing such information and permits consumers to opt out of our ability to share information with unaffiliated third parties under certain circumstances. Other laws and regulations, at both the federal and state level, impact our ability to share certain information with affiliates and non-affiliates for marketing or non-marketing purposes, or both, or to contact customers with marketing offers. The GLBA also requires banking institutions to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations. Refer to the “Enterprise Risk Management” section in Item 7 of this Form 10-K for additional information regarding privacy and cybersecurity risk management and oversight.

Acquisitions

Our ability to grow through acquisitions is limited by various regulatory approval requirements. The FRB's prior approval is required if we wish to (i) acquire all, or substantially all, of the assets of any bank, (ii) acquire direct or indirect ownership or control of more than 5% of any class of voting securities of any bank or thrift, or (iii) merge or consolidate with any other BHC.

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. Additionally, the BHC Act enumerates the factors the FRB must consider when reviewing the merger of BHCs, the acquisition of banks, or the acquisition of voting securities of a bank or BHC. These factors include the competitive effects of the proposal in the relevant geographic markets, the financial and managerial resources and future prospects of the companies and banks involved in the transaction, the effect of the transaction on the financial stability of the U.S., the organizations' compliance with anti-money laundering laws and regulations, the convenience and needs of the communities to be served, and the records of performance, under the CRA, of the insured depository institutions involved in the transaction. In addition, in cases involving interstate bank acquisitions, the FRB must consider the concentration of deposits nationwide and in certain individual states. Under the Dodd-Frank Act, a BHC is generally prohibited from merging, consolidating with, or acquiring another company if the resulting company's liabilities upon consummation would exceed 10% of the aggregate liabilities of the U.S. financial sector, including the U.S. liabilities of foreign financial companies.

Competition

We face competition from domestic and foreign lending institutions and numerous other providers of financial services. The Company competes using a client-centered model that focuses on working together as OneTeam to deliver high quality advice and service, while offering a broad range of products and services. We believe this approach better positions us to increase loyalty and deepen existing relationships, while also attracting new customers. Furthermore, the Company maintains a strong

branch presence within the high-growth Southeast and Mid-Atlantic U.S., complemented by a national focus across most of its lines of business, thereby enhancing our competitive position. While we believe the Company is well positioned within the highly competitive financial services industry, the industry could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation. The ability of non-banking entities to provide services previously limited to commercial banks has intensified competition. Because non-banking entities are not subject to many of the same regulatory supervision and restrictions as banks and bank holding companies, they can often operate with greater flexibility and with lower cost and capital structures. However, non-banking entities may not have the same access to deposit funds or government programs and, as a result, those non-banking entities may elect, as some have done, to become financial holding companies to gain such access. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions, which could further alter the competitive environment in which we conduct business. In addition, the ability to access and use technology is an increasingly significant competitive factor in the financial services industry. Having the right technology is a critically important component to client satisfaction as it affects our ability to deliver the products and services that clients desire, in a manner that they find convenient and attractive. Banks generally are facing increased competition from products and services offered by non-bank financial technology companies, particularly related to payment services and lending.

Employees

At December 31, 2018, the Company had 22,899 full-time equivalent employees. None of the employees within the Company are subject to a collective bargaining agreement. Management considers its employee relations to be in good standing.

Additional Information

See also the following additional information, which is incorporated herein by reference: Business Segments (under the captions “Business Segments” and “Business Segment Results” in Item 7, MD&A, in this Form 10-K, and Note 22, “Business Segment Reporting,” to the Consolidated Financial Statements

in Item 8, Financial Statements and Supplementary Data, of this Form 10-K); Net Interest Income (under the captions “Net Interest Income/Margin (FTE)” in the MD&A and “Selected Financial Data” in Item 6); Securities (under the caption “Investment Securities” in the MD&A and Note 6 to the Consolidated Financial Statements); Loans and Leases (under the captions “Loans,” “Allowance for Credit Losses,” and “Nonperforming Assets” in the MD&A and “Loans” and “Allowance for Credit Losses” in Notes 7 and 8, respectively, to the Consolidated Financial Statements); Deposits (under the caption “Deposits” in the MD&A); Short-Term Borrowings (under the caption “Short-Term Borrowings” in the MD&A and Note 13, “Borrowings and Contractual Commitments,” to the Consolidated Financial Statements); Trading Activities and Trading Assets and Liabilities (under the caption “Trading Assets and Liabilities and Derivative Instruments” in the MD&A and “Trading Assets and Liabilities and Derivative Instruments” and “Fair Value Election and Measurement” in Notes 5 and 20, respectively, to the Consolidated Financial Statements); Market Risk Management (under the caption “Market Risk Management” in the MD&A); Liquidity Risk Management (under the caption “Liquidity Risk Management” in the MD&A); Credit Risk Management (under the caption “Credit Risk Management” in the MD&A); and Operational Risk Management (under the caption “Operational Risk Management” in the MD&A). The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on the Company's investor relations website at <http://investors.suntrust.com>, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Furthermore, on the Company's investor relations website, the Company makes available, under the heading "Governance" its (i) codes of ethics for the Board, senior financial officers, and employees, (ii) its Corporate Governance Guidelines, and (iii) the charters of SunTrust Board committees. If the Company makes changes in, or provides waivers from, the provisions of any of its codes of ethics that the SEC requires it to disclose, the Company intends to disclose these events in the “Governance” section of its investor relations website. Reports filed or furnished to the SEC are also available through the SEC's website at <http://www.sec.gov>.

Item 1A. RISK FACTORS

The risks described in this Form 10-K are not the only risks we face. Additional risks that are not presently known or that we deem to be immaterial also may have a material adverse effect on our financial condition, results of operations, business, and prospects.

Merger-related Risks

Failure to complete the merger with BB&T (the “Merger”) could negatively impact our stock price and our future business and financial results.

If the Merger is not completed for any reason, our ongoing business may be adversely affected and, without realizing any of the benefits of having completed the Merger, we would be subject to a number of risks, including the following:

- we may experience negative reactions from the financial markets, including negative impacts on our stock price
- we may experience negative reactions from our customers, vendors and teammates
- we will have incurred substantial expenses and will be required to pay certain costs relating to the Merger, including legal, accounting, investment banking and advisory fees, whether or not the Merger is completed
- we will have been bound by certain restrictions on the conduct of our business prior to completion of the Merger; such restrictions, the waiver of which is subject to the consent of BB&T (not to be unreasonably withheld, conditioned or delayed), may prevent us from making certain acquisitions or taking certain other specified actions during the pendency of the Merger
- our management team will have devoted substantial time and resources to matters relating to the Merger (including integration planning), and would otherwise have devoted their time and resources to other opportunities that may have been beneficial to us as an independent financial institution

In addition to the above risks, if the Agreement and Plan of Merger (the “Merger Agreement”) is terminated and our Board seeks another merger or business combination, the market price of our common stock could decline, which could make it more difficult to find a party willing to offer equivalent or more attractive consideration than the consideration BB&T has agreed to provide in the Merger. If the Merger Agreement is terminated under certain circumstances, we may be required to pay a termination fee of \$1.121 billion to BB&T, which may adversely affect the price of our common stock.

We will be subject to uncertainties while the Merger is pending, which could adversely affect our business.

Uncertainty about the effect of the Merger on teammates and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is consummated and for a period of time thereafter, and could cause customers and others that deal with us to seek to change their existing business relationships with us. Teammate retention may be particularly

challenging during the pendency of the Merger, as teammates may experience uncertainty about their roles with the surviving corporation following the Merger. In addition, the Merger Agreement restricts us from making certain acquisitions and taking other specified actions without the consent of BB&T, and generally requires us to continue our operations in the ordinary course, until the Merger closes. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Merger or may otherwise adversely affect our ongoing business and operations.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the Merger. Those conditions include: the approval of the Merger by our and BB&T’s shareholders; the receipt of authorization for

listing on the NYSE of the shares of BB&T Common Stock to be issued in the Merger; the receipt of all required regulatory approvals; the effectiveness of the registration statement on Form S-4 for the shares of BB&T Common Stock to be issued in the Merger; the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the Merger illegal; subject to certain exceptions, the accuracy of representations and warranties under the Merger Agreement; our and BB&T's performance of our and their respective obligations under the Merger Agreement in all material respects; and each of our and BB&T's receipt of a tax opinion to the effect that the Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. These conditions to the closing of the Merger may not be fulfilled in a timely manner or at all, and, accordingly, the Merger may be delayed or may not be completed.

We and BB&T may elect to terminate the Merger Agreement under certain circumstances. Among other situations, if the Merger is not completed by February 7, 2020, either we or BB&T may choose not to proceed with the Merger (unless the failure of the closing to occur by such date was due to the failure of the party seeking to terminate the Merger Agreement to perform or observe the obligations, covenants and agreements of such party set forth in the Merger Agreement). We and BB&T can also mutually decide to terminate the Merger Agreement at any time. If the Merger Agreement is terminated, under certain limited circumstances we may be required to pay a termination fee of \$1.121 billion to BB&T.

Because the market price of BB&T Common Stock may fluctuate, our shareholders cannot be certain of the precise value of the merger consideration they may receive in the Merger.

At the time the Merger is completed, each issued and outstanding share of our common stock (other than certain shares held by us or BB&T) will be converted into the right to receive 1.295 shares of BB&T Common Stock.

There will be a time lapse between each of the date of the proxy statement/prospectus for the shareholders meeting to adopt the Merger Agreement, the date on which our shareholders

vote to approve the Merger Agreement, and the date on which our shareholders entitled to receive shares of BB&T Common Stock actually receive such shares. The market value of BB&T Common Stock may fluctuate during these periods as a result of a variety of factors, including general market and economic conditions, changes in BB&T's businesses, operations and prospects, and regulatory considerations. Many of these factors are outside of our and BB&T's control. In addition, if the Merger is completed, the combined company may be subject to risks from operations that SunTrust does not have today, such as BB&T's extensive insurance agency business. Consequently, at the time that our shareholders must decide whether to approve the Merger Agreement, they will not know the actual market value of the shares of BB&T Common Stock they will receive when the Merger is completed. The actual value of the shares of BB&T Common Stock received by our shareholders will depend on the market value of shares of BB&T Common Stock at the time the Merger is completed. This market value may be less or more than the value used to determine the exchange ratio stated in the Merger Agreement.

Our ability to complete the Merger is subject to the receipt of approval from various federal and state regulatory agencies, which may impose conditions that could adversely affect us or cause the Merger to be abandoned.

Before the Merger may be completed, we must obtain the approval of various federal and state regulatory agencies, including the FRB, the FDIC, the North Carolina Commissioner of Banks, and the Georgia Department of Banking and Finance. These regulators may impose conditions on the completion of the Merger, and any such conditions could have the effect of delaying completion of the Merger or causing a termination of the Merger Agreement. There can be no assurance as to whether regulatory approval will be received, the timing of that approval, or whether any conditions will be imposed.

Shareholder litigation could prevent or delay the closing of the proposed Merger or otherwise negatively impact our business and operations.

We may incur additional costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with the proposed Merger. Such litigation could have an adverse effect on our financial condition and results of operations and could prevent or delay the consummation of the Merger.

Regulatory Risks

Current or future legislation or regulation could require us to change our business practices, reduce revenue, impose additional costs, or otherwise adversely affect business operations or competitiveness.

As a financial institution, we are subject to extensive state and federal regulation in the U.S. and in those jurisdictions outside of the U.S. where we conduct certain limited operations. This regulation, together with increased reporting and significant existing and proposed legislation and regulatory requirements, limit the manner in which we do business and

may restrict our ability to compete in our current businesses; to engage in new or expanded business; to offer certain products and services; reduce or limit our revenue; subject us to increased and additional fees, assessments, or taxes; and otherwise adversely affect our business and operations. Our failure to comply with the laws, regulations, and rules governing our business may result in fines, sanctions (including restrictions on business activities), and damage to reputation. Further, regulators and bank supervisors continue to exercise qualitative supervision and regulation of our industry and specific business operations and related matters, such as capital and liquidity requirements, AML and OFAC compliance programs, and incentive compensation. Any failure to satisfy regulators' substantive and qualitative expectations may adversely affect our business and operations. Violations of laws and regulations or deemed deficiencies in risk management or other qualitative practices also may be incorporated into the Company's bank supervisory ratings. A downgrade in these ratings, or other regulatory actions and settlements, can limit our ability to

pursue acquisitions or conduct other expansionary activities for a period of time and require new or additional regulatory approvals before engaging in certain other business activities.

Also, the amounts paid by financial institutions in settlement of proceedings or investigations and the severity of other terms of regulatory settlements can be extensive. In some cases, governmental authorities have required criminal pleas, admissions of wrongdoing, imposed limitations on asset growth, managerial changes, or other extraordinary terms as part of such settlements, which could have significant consequences for a financial institution, including loss of customers, restrictions on the ability to access the capital markets, and the inability to operate certain businesses or offer certain products for a period of time. These enforcement trends also increase the exposure of financial institutions to civil litigation and reputational damage, which could lead to the loss of customers.

As the primary focus of financial services regulation is the protection of depositors, FDIC funds, consumers, and the banking system as a whole, and not protection of shareholders, this regulation may be adverse to our owners' interests. Legislation or regulation also may impose unexpected or unintended consequences, the impact of which is difficult to predict. For example, certain aspects of recent U.S. federal income tax reform could have a negative impact on our business. The 2017 Tax Act limited or eliminated certain income tax deductions, such as the net business interest expense deduction, the home mortgage interest deduction, and the deduction of interest on home equity loans. The limitation or elimination of these deductions, especially those that limit or eliminate the deductibility of interest paid on loans, could adversely affect demand for certain types of our products, such as home equity loans or jumbo mortgages.

Other additional regulation that may be adopted could have a material adverse effect on our business operations, income, and competitive position, in addition to other negative consequences.

For more detailed information regarding the regulatory framework to which we are subject, and a discussion of key aspects of the Dodd-Frank Act, see the "Regulation and

Supervision” section within Item 1, “Business,” of this Form 10-K.

We are subject to stringent capital adequacy and liquidity requirements and our failure to meet these would adversely affect our financial condition.

We, together with our banking subsidiary and broker-dealer subsidiaries, must satisfy various and substantial capital and liquidity requirements, subject to qualitative and quantitative review and assessment by our regulators. Regulatory capital and liquidity requirements constrain how we use our capital and manage our balance sheet, and can restrict our ability to pay dividends or to make stock repurchases.

Additionally, our regulatory requirements increase as our size increases. We become subject to enhanced capital and/or liquidity requirements after our consolidated assets exceed \$250 billion or our on-balance sheet foreign exposure exceeds \$10 billion, and our regulators may expect us to begin voluntarily complying with those requirements as we approach that size.

Market Risks

The monetary and fiscal policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Federal Reserve regulates the supply of money and credit in the U.S. Its policies can significantly impact the cost of funds for lending and investing, as well as the return earned on those loans and investments, both of which can have an impact on our net interest income. They can also materially affect the value of financial assets we hold, such as debt securities, hedging instruments such as swaps, and mortgage servicing rights. The resulting impact on interest rates as a result of Federal Reserve policies can also adversely affect borrowers through higher debt servicing cost and potentially increase the risk that they may fail to repay their loan obligations. Federal Reserve policies could also create asset bubbles resulting from prolonged periods of accommodative policy, which could in turn cause volatile markets and rapidly declining collateral values. Changes in Federal Reserve policies are beyond our control and difficult to predict; consequently, the impact of these changes on our activities and results of operations is also difficult to predict.

Our financial results have been, and may continue to be, materially affected by general economic conditions, and a deterioration of economic conditions or of the financial markets may materially adversely affect our lending activity or other businesses, as well as our financial condition and results.

We generate revenue primarily from interest and fees charged on loans and other products and services that we provide. In particular, a substantial amount of our revenue and earnings come from the net interest income and fee income that we earn within our Consumer and Wholesale business segments. These business segments have been, and may continue to be, materially affected by the state of the U.S. economy. Although the U.S. economy has continued to gradually improve from the

severely depressed levels experienced during the last economic recession, economic growth has been slow and uneven and the future economic growth environment is not certain. Financial uncertainty stemming from volatility in oil and commodity prices, a strong U.S. dollar which adversely impacts exports and GDP, the rising level of U.S. debt and budgetary matters, a rapidly changing interest rate environment in the U.S., geopolitical tensions, trade disputes, uncertainty with regards to the U.S. political landscape and the impacts of any changes in law, regulation and policy, eroding business confidence and other effects of U.S. government shutdowns, tariffs, and potential contagion from deceleration of economic activity in other large countries have impacted and may continue to impact the continuing global economic recovery.

A prolonged period of slow growth in the U.S. economy as a whole or in any regional markets that we serve, any deterioration in economic conditions or the financial markets resulting from the above matters, or any other events or factors that may disrupt or dampen the economic recovery, could materially adversely affect our financial condition

and results. Also, any unanticipated deterioration in global economic conditions could adversely impact the domestic economy or financial markets, which could in turn negatively impact our borrowers or other counterparties that have direct or indirect exposure to these regions, and/or contribute to a flat or inverted yield curve. For example, the final terms of the United Kingdom's ongoing negotiations regarding its withdrawal from the European Union (commonly referred to as "Brexit") remain uncertain, and could adversely impact economic and/or market conditions for us and our third parties. Global disruptions can undermine investor confidence, cause a contraction of available credit, or create extreme market volatility, any of which could have significant adverse effects on our businesses, results of operations, financial condition and liquidity; even if our direct exposure to the affected region is limited.

Further, if unemployment levels increase or if home prices decrease, we would expect to incur higher charge-offs and provision expense from increases in our allowance for credit losses. These conditions may adversely affect not only consumer loan performance but also C&I and CRE loans, especially for those businesses that rely on the health of industries or properties that may suffer from deteriorating economic conditions. The ability of these borrowers to repay their loans may be reduced, causing us to incur higher credit losses.

Deterioration in business and economic conditions may also erode consumer and investor confidence levels and/or result in a lower demand for loans by creditworthy customers, potentially reducing our interest income. It also could adversely affect financial results for our fee-based businesses, including our wealth management, investment advisory, trading, and investment banking businesses. We earn fee income from managing assets for clients and providing brokerage and other investment advisory and wealth management services. Because investment management fees are often based on the value of assets under management, a decrease in the market prices of those assets could reduce our fee income. Changes in stock or fixed income market prices or client preferences could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business. Poor economic

conditions and volatile or unstable financial markets would likely adversely affect our capital markets-related businesses.

Changes in market interest rates or capital markets could adversely affect our revenue and expenses, the value of assets and obligations, as well as the availability and cost of capital and liquidity.

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices. Interest rate risk, defined as the exposure of net interest income and MVE to adverse movements in interest rates, is our primary market risk, and mainly arises from the nature of the interest-earning assets and interest-bearing liabilities on our balance sheet. We are also exposed to market risk associated with our assets and liabilities measured at fair value (i.e., trading securities, derivative instruments, securities AFS, certain other equity securities, trading loans, certain LHFS and LHFI, residential MSRs, brokered time deposits, and certain structured notes and fixed rate issuances included in long-term debt). The ALCO meets regularly and is responsible for review of interest rate risk positioning and the establishment of policies to monitor and limit exposure to market risk. The policies established by the ALCO are reviewed and approved by our Board. See additional discussion of changes in market interest rates in the “Market Risk Management” section of Item 7, MD&A, in this Form 10-K.

Given our business mix, and the fact that most of our assets and liabilities are financial in nature, our balance sheet can be sensitive to, and we must closely monitor, movements in market interest rates and spreads as well as the performance of the financial markets. In addition to the impact of the general economy, changes in interest rates or in valuations in the debt or equity markets could directly impact us in one or more of the following ways:

- The yield on earning assets and rates paid on interest-bearing liabilities may change in disproportionate ways; or
- The value of certain on-balance sheet and off-balance sheet financial instruments that we hold could change adversely.

Our net interest income is the difference between the interest we earn on loans, debt securities, and other earning assets we hold and the interest expense we pay on deposits, debt, and other rate-bearing liabilities. Net interest margin is the difference between the yield on our earning assets and the rate paid for deposits and other sources of funding. Our net interest income is a function of both our net interest margin and the amount of earning assets we hold and changes in either net interest margin or the amount of our earning assets could affect our net interest income and our earnings.

Changes in the absolute level of interest rates can affect our net interest margin. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. When interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract. Higher interest rates may also tend

to result in lower mortgage production income and elevated charge-offs in certain categories of the loan portfolio.

The amount and type of earning assets and rate-bearing liabilities that we hold can affect our yield, rate paid, and net interest margin. We hold earning assets in the form of loans and investment securities, among other assets. As noted above, if economic conditions deteriorate, we may see lower demand for loans by creditworthy customers, reducing our interest income. In addition, we may invest in lower yielding investment securities for a variety of reasons.

Changes in the slope of the yield curve could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. The interest we earn on our assets and our costs to fund those assets may be affected by changes in market interest rates, changes in the slope of the yield curve, and our cost of funding. This could lower our net interest income and our net interest margin. We discuss these topics in greater detail in the “Enterprise Risk Management” and “Net Interest Income/Margin” sections of Item 7, MD&A, in this Form 10-K.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction, magnitude, and speed of interest rate changes and the slope of the yield curve. We hedge some of that interest rate risk with interest rate derivatives; however, these hedges may not be fully effective

and may cause volatility or losses in our net interest income.

Interest rates on our outstanding and future financial instruments might be subject to change based on regulatory developments, which could adversely affect our revenue, expenses, and the value of those financial instruments.

LIBOR and certain other “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop requiring banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established. Although the Federal Reserve and various financial industry groups are engaged in efforts to develop and implement a replacement benchmark rate for U.S. dollar-denominated LIBOR, it is uncertain when those efforts will be finalized or the extent to which any replacement will be accepted and utilized by market participants. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Further, these effects could be different for each of our various financial instruments that are tied to LIBOR rates, which could adversely impact our net interest income and net interest margin, force us to incur costs to re-balance our mix of interest earning assets and interest-bearing liabilities, or cause us to re-form certain of our derivative instruments or other financial instruments. Any

uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value and associated revenue and expenses of our floating rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates.

Our earnings may be affected by volatility in mortgage production and servicing revenues, and by changes in carrying values of our servicing assets and mortgages held for sale due to changes in interest rates.

We earn revenue from originating mortgage loans and from fees for servicing loans. When rates rise, the demand for mortgage loans usually tends to fall, reducing the revenue we receive from loan originations.

Changes in interest rates can affect prepayment assumptions, and thus, the fair value of our residential MSR. A servicing right is the right to service a loan (collect principal, interest, and escrow amounts) for a fee. When interest rates fall, borrowers are usually more likely to prepay their loans by refinancing them at a lower rate. As the level of prepayments increases, the fair value of our residential MSR would decrease. We regularly evaluate the fair value of our residential MSR and related hedges, and any net decrease in the fair value of our MSR would in turn reduce earnings in the period in which the fair value reduction occurs.

Similarly, we measure at fair value mortgages held for sale for which there is an active secondary market and readily available market prices exist. Similar to other interest-bearing securities, the value of these mortgages held for sale may be adversely affected by changes in interest rates. For example, if market interest rates increase relative to the yield on these mortgages held for sale and other interests, their fair value may fall. For additional information, see the “Enterprise Risk Management—Other Market Risk” and “Critical Accounting Policies” sections of Item 7, MD&A, and Note 10, “Goodwill and Other Intangible Assets,” to the Consolidated Financial Statements in this Form 10-K.

We use financial instruments, including derivatives, to hedge the risk of changes in the fair value of mortgage loans held for sale and the fair value of residential MSR. These hedges may not be fully effective and may cause volatility, or losses, in our net interest income and mortgage related income. We generally do not hedge all of our risk, and we may not be successful in hedging any of the risk. Hedging is a complex process, requiring sophisticated models and constant monitoring and re-balancing. We may use hedging instruments tied to U.S. Treasury rates, LIBOR, or Eurodollars that may not perfectly correlate with the value or income being hedged. We could incur significant losses from our hedging activities. There may be periods where we elect not to use derivatives and other instruments to hedge interest rate risk. For additional information, see Note 19, “Derivative Financial Instruments,” to the Consolidated Financial Statements in this Form 10-K.

Disruptions in our ability to access global capital markets and other sources of wholesale funding may adversely affect our capital resources and liquidity.

In managing our consolidated balance sheet, we depend on access to global capital markets and other sources of wholesale

funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our clients. Other sources of wholesale funding available to us include secured borrowings from the FHLB, inter-bank borrowings, repurchase agreements, and secured borrowings from the Federal Reserve discount window. Any occurrence that may limit our access to the capital markets or these other sources of funding, such as a decline in the confidence of debt investors, including investors in FHLB obligations, our depositors or counterparties participating in the capital markets, or a downgrade of any of our debt or credit ratings, including our credit risk rating with the FHLB, may adversely affect our funding costs and our ability to timely raise funding and, in turn, our liquidity.

Credit Risks

We are subject to credit risk.

When we lend money, commit to lend money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, which is the risk of losses if our borrowers do not repay their loans or if our counterparties fail to perform according to the terms of their contracts. A number of our products expose us to credit risk, including loans, leveraged loans, leases and lending commitments, derivatives, trading assets, insurance arrangements with respect to such products, and assets held for sale. Changes in the credit quality of our portfolios can have a significant impact on our earnings. We estimate and establish reserves for credit risks and credit losses inherent in our credit exposure (including unfunded commercial credit commitments). This process, which is critical to our financial results and condition, requires difficult, subjective, and complex judgments, considering both borrower-specific and external conditions that might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we do identify.

We might underestimate the credit losses inherent in our loan portfolio and have credit losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions, including falling real estate or commodity prices and higher unemployment, or other factors such as changes in borrower behavior. As an example, borrowers may discontinue making payments on their real estate-secured loans if the value of the real estate is less than what they owe, even if they are still financially able to make the payments.

Also, to the extent we increase our consumer credit portfolio, we may be subject to greater risk than we have experienced in the past because such loans typically are unsecured and may be subject to greater fraud risk to the extent such loans are originated online.

While we believe that our allowance for credit losses was appropriate at December 31, 2018, there is no assurance that it will be sufficient to cover all incurred credit losses. In the event of significant deterioration in economic conditions, we may be

required to increase reserves in future periods, which would reduce our earnings and potentially capital. For additional information, see the “Risk Management—Credit Risk Management” and “Critical Accounting Policies—Allowance for Credit Losses” sections of Item 7, MD&A, in this Form 10-K.

We may have more credit risk and higher credit losses to the extent that our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral.

Our credit risk and credit losses can increase if our loans are concentrated in borrowers engaged in the same or similar activities or in borrowers who as a group may be uniquely or disproportionately affected by economic or market conditions. Deterioration in economic conditions, housing conditions, or real estate values in the markets in which we operate could result in materially higher credit losses. For additional information, see the “Loans,” “Allowance for Credit Losses,” “Risk Management—Credit Risk Management,” and “Critical Accounting Policies—Allowance for Credit Losses” sections of Item 7, MD&A, and Notes 7 and 8, “Loans” and “Allowance for Credit Losses,” to the Consolidated Financial Statements in this Form 10-K.

Liquidity Risks

We rely on the mortgage secondary market and GSEs for some of our liquidity.

We sell most of the mortgage loans that we originate to reduce our retained credit risk and to provide funding capacity for originating additional loans. We rely on GSEs to purchase loans that meet their conforming loan requirements. Investor demand for non-conforming loans has fallen sharply, resulting in decreased origination of non-conforming loans, which reduces our revenue. When we retain a loan, not only do we retain the credit risk of the loan, but we also do not receive any sale proceeds that could be used to generate new loans. A persistent lack of liquidity could limit our ability to fund and thus originate new mortgage loans, reducing the fees we earn from originating and servicing loans. In addition, we cannot provide assurance that GSEs will not materially limit their purchases of conforming loans due to capital constraints or other changes in their criteria for conforming loans (e.g., maximum loan amount or borrower eligibility). Proposals have been presented to reform the housing finance market in the U.S., including the role of the GSEs in the housing finance market. The extent and timing of any such regulatory reform of the housing finance market and the GSEs, as well as any effect on our business and financial results, are uncertain.

Loss of customer deposits could increase our funding costs.

We rely heavily on bank deposits as a low cost and stable source of funding for the loans we make. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may consequentially increase, either because we also raise

our rates to avoid losing deposits or because we lose deposits and must therefore rely on more expensive sources of funding. Also, our clients could pursue alternatives to bank deposits if these clients perceive alternative investments as providing superior expected returns. When clients move money out of bank deposits in favor of alternative investments, we can lose a relatively inexpensive and stable source of funds, increasing our funding costs. Clients typically move money from bank deposits to alternatives during a rising interest rate environment, an environment that the U.S. has been experiencing in recent years and one that could continue in the future. Higher funding costs reduce our net interest income.

Any reduction in our credit rating could increase the cost of our funding from the capital markets.

The rating agencies regularly evaluate us, and their ratings are based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. Our failure to maintain those ratings could adversely affect the cost and other terms upon which we are able to obtain funding and increase our cost of capital. Credit ratings are one of a number of factors that influence our

funding costs. A credit downgrade might also affect our ability to attract or retain deposits from commercial and corporate customers as well as our ability to conduct derivatives business with certain clients and counterparties which could trigger obligations by us to make cash or collateral payments to certain clients and counterparties. See the “Liquidity Risk Management” section of Item 7, MD&A, in this Form 10-K.

Legal Risks

We are subject to litigation, and our expenses related to this litigation may adversely affect our results.

From time to time we are subject to litigation in the course of our business. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. The outcome of litigation and regulatory matters as well as the timing of ultimate resolution are inherently difficult to predict.

We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. We may incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could adversely affect our results of operations and financial condition. For additional information,

see Note 21, "Contingencies," to the Consolidated Financial Statements in this Form 10-K.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations, but there can be no assurance that these will be effective. In addition to fines and penalties, we may suffer other negative consequences from regulatory violations including restrictions on certain activities, such as our mortgage business, which may affect our relationship with the GSEs and may also damage our reputation, and this in turn might materially affect our business and results of operations.

Further, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there were in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. Additionally, federal regulators have pursued financial institutions with emerging theories of recovery under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Courts may uphold significant additional penalties on financial institutions, even where the financial institution had already reimbursed the government or other counterparties for actual losses.

Other Business Risks

We are subject to certain risks related to originating and selling mortgages. We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, or borrower fraud, and this could harm our liquidity, results of operations, and financial condition.

We originate and often sell mortgage loans. When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. An increase in the number of repurchase and indemnity demands from purchasers related to representations and warranties on loans sold could result in an increase in the amount of losses for loan repurchases.

Also, we bear a risk of loss of up to one-third of the incurred losses resulting from borrower defaults for multi-family commercial mortgage loans that we sell to Fannie Mae (and that Pillar Financial, LLC sold to Fannie Mae prior to SunTrust's acquisition of Pillar). See the discussion of "Commercial Mortgage Loan Loss Share Guarantee" in Note 18,

"Guarantees," to the Consolidated Financial Statements in this Form 10-K for additional information.

In addition to repurchase claims from the GSEs, we have received indemnification claims from, and in some cases, have been sued by, non-GSE purchasers of our loans. These claims allege that we sold loans that failed to conform to statements regarding the quality of the mortgage loans sold, the manner in which the loans were originated and underwritten, and the compliance of the loans with state and federal law. See additional discussion in Note 18, "Guarantees," and Note 21, "Contingencies," to the Consolidated Financial Statements in this Form 10-K.

We face risks as a servicer of loans.

We act as servicer and/or master servicer for mortgage loans included in securitizations and for unsecuritized mortgage loans owned by investors. As a servicer or master servicer for those loans, we have certain contractual obligations to the securitization trusts, investors or other third parties. In our capacity as a servicer, these contractual obligations include foreclosing on defaulted mortgage loans or, to the extent consistent with the applicable securitization or other investor agreement, considering alternatives to foreclosure such as loan modifications or short sales. In our capacity as a master servicer, these contractual obligations include overseeing the servicing of mortgage

loans by the servicer. Generally, our servicing obligations are set by contract, for which we receive a contractual fee. However, GSEs can amend their servicing guidelines, which can increase the scope or costs of the services we are required to perform without any corresponding increase in our servicing fee. Further, the CFPB has implemented national servicing standards which have increased the scope and costs of services which we are required to perform. In addition, there has been a significant increase in state laws that impose additional servicing requirements that increase the scope and cost of our servicing obligations. As a servicer, we also advance expenses on behalf of investors which we may be unable to collect.

If we commit a material breach of our obligations as servicer or master servicer, we may be subject to contract termination if the breach is not cured within a specified period of time following notice, which can generally be given by the securitization trustee or a specified percentage of security holders, causing us to lose servicing income. In addition, we may be required to indemnify the securitization trustee against losses from any failure by us, as a servicer or master servicer, to perform our servicing obligations or any act or omission on our part that involves willful misfeasance, bad faith, or gross negligence. For certain investors and/or certain transactions, we may be contractually obligated to repurchase a mortgage loan or reimburse the investor for credit losses incurred on the loan as a remedy for servicing errors with respect to the loan. If we experience increased repurchase obligations because of claims being made that we did not satisfy our obligations as a servicer or master servicer, or we experience increased loss severity on such repurchases, we may have to materially increase our repurchase reserve.

We also have received indemnification requests related to our servicing of loans owned or insured by other parties,

primarily GSEs. Typically, such a claim seeks to impose a compensatory fee on us for departures from GSE service levels. In most cases, this is related to delays in the foreclosure process. Additionally, we have received indemnification requests where an investor or insurer has suffered a loss due to a breach of the servicing agreement. While the number of such claims has been small, these could increase in the future. See additional discussion in Note 18, "Guarantees," to the Consolidated Financial Statements in this Form 10-K.

Consumers and small businesses may decide not to use banks to complete their financial transactions, which could affect our revenue.

Technology, "FinTech" start-ups, increased use of peer-to-peer and other technology-based lenders, and other changes now allow parties to complete financial transactions and obtain certain loan products without banks. For example, consumers and small businesses can pay bills, transfer funds, and borrow money without banks. This could result in the loss of fee income, the loss of client deposits, and consumer and small business loan balances and the income generated from those deposits and loans.

We have businesses other than banking which subject us to a variety of risks.

We are a diversified financial services company, which we consider beneficial in that it may enhance our growth prospects and may reduce our overall volatility. However, this diversity subjects our earnings to a broader variety of risks and uncertainties than if we were a less diversified company. Other businesses in addition to banking that we operate include investment banking, securities underwriting and market making, loan syndications, investment management and advice, and retail and wholesale brokerage services offered through our subsidiaries. These businesses entail significant market, operational, credit, legal, and other risks that could materially adversely impact us and our results of operations.

Negative public opinion could damage our reputation and adversely impact business and revenues.

As a financial institution, our earnings and capital are subject to risks associated with negative public opinion. Negative public opinion regarding us could result from our actual or alleged conduct in any number of activities, including lending or sales practices, a breach of client or teammate information, the failure of any product or service sold by us to meet our clients' expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to attract and/or retain clients and personnel and can expose us to litigation and regulatory action. Actual or alleged conduct by one of our businesses can result in negative public opinion about our other businesses. Actual or alleged conduct by another financial institution can result in negative public opinion about the financial services industry in general and, as a result, adversely affect us.

We may face more intense scrutiny of our sales, training, and incentive compensation practices.

We face increased scrutiny of our consumer sales practices, training practices, incentive compensation design and governance, and quality assurance and customer complaint resolution practices. Although we have invested significant resources enhancing these processes in recent years, there can be no assurance that our processes or their results will meet regulatory standards or expectations. Findings from self-identified or regulatory reviews may require responsive actions, including increased investments in compliance systems and personnel, or the payment of fines, penalties, increased regulatory assessments, or client redress, and may increase legal or reputational risk exposures.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business infrastructure, such as banking services, data processing, business processes, and internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients, to support teammates and otherwise to conduct business.

Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. Further, in some instances we may be responsible for failures of such third parties to comply with government regulations. We may not be insured against all types of losses as a result of third party failures, and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt the operations or increase the costs of doing business.

Competition in the financial services industry is intense and we could lose business or suffer margin declines as a result.

We operate in a highly competitive industry that could become even more competitive as a result of reform of the financial services industry resulting from the Dodd-Frank Act and other legislative, regulatory, and technological changes, and from continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of nonbanking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that have elected to become financial holding companies can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking, and may acquire banks and other financial institutions. These new competitors have significantly changed the competitive environment in which we conduct business. Some of our competitors have greater

financial resources and/or face fewer regulatory constraints. In addition, the ability to access and use technology is an increasingly significant competitive factor in the financial services industry. Technology is a critically important component to client satisfaction as it affects the ability to deliver the products and services that clients desire and in a manner that they find convenient and attractive. Banks generally are facing the risk of increased competition from products and services offered by non-bank financial technology companies, particularly related to payment services and lending.

As a result of these various sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

We continually encounter technological change and must effectively develop and implement new technology.

The financial services industry is undergoing rapid technological change with frequent introductions of new technology-driven products and services. We have invested in technology and connectivity to automate functions previously performed manually, to facilitate the ability of customers to engage in financial transactions, and otherwise to enhance the customer experience with respect to our products and services. On the retail side, this has included developments such as more sophisticated ATMs and expanded access to banking transactions through the internet, smart phones, tablets and other remote devices. This has allowed us to better serve our clients and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands, including demands for faster and more secure payment services, to create efficiencies in our operations, and to integrate those offerings with legacy platforms or to update those legacy platforms. A failure to maintain or enhance our competitive position with respect to technology, whether because we fail to anticipate customer expectations or because our technological developments fail to perform as desired or are not rolled out in a timely manner, may cause us to lose market share or incur additional expense.

Maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on our ability to adapt products and services to evolving market and industry standards. The widespread adoption of new technologies has required, and likely will continue to require, us to make substantial investments to modify or adapt existing products and services or develop new products and services. In addition, there is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject

to cost increases, any of which would adversely affect our profitability.

We have in the past and may in the future pursue acquisitions, which could affect costs and from which we may not be able to realize anticipated benefits.

We have historically pursued acquisitions, and may seek acquisitions in the future. We may not be able to successfully identify suitable candidates, negotiate appropriate acquisition terms, complete proposed acquisitions, successfully integrate acquired businesses into the existing operations, or expand into new markets. Once integrated, acquired operations may not perform as expected or achieve levels of revenues, profitability, or productivity comparable with those achieved by our pre-integration operations.

Acquisitions involve numerous risks, including difficulties in the integration of the operations, technologies, services, and products of the acquired companies, and the diversion of management's attention from other business concerns. We may not properly ascertain all such risks prior to an acquisition or prior to such a risk impacting us while integrating an acquired company. As a result, difficulties encountered with acquisitions could have a material adverse

effect on our business, financial condition, and results of operations.

Furthermore, we must generally receive federal regulatory approval before we can acquire a bank or BHC. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, future prospects, including current and projected capital levels, the competence, experience, and integrity of management, compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution's record of compliance under the CRA, and the effectiveness of the acquiring institution in combating money laundering activities. We cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we might be required to sell portions of the acquired institution as a condition to receiving regulatory approval or we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

We depend on the expertise of key personnel. If these individuals leave or change their roles without effective replacements, operations may suffer.

Our success depends, to a large degree, on the continued services of executive officers and other key personnel who have extensive experience in the industry. We generally do not carry key person life insurance on any of our executive officers or other key personnel. If we lose the services of any of these persons and fail to manage a smooth transition to new personnel, our business could be adversely impacted. These risks may be exacerbated by our proposed Merger with BB&T.

We may not be able to hire or retain additional qualified personnel and recruiting and compensation costs may increase as a result of changes in the marketplace, both of

which may increase costs and reduce profitability and may adversely impact our ability to implement our business strategies.

Our success depends upon the ability to attract and retain highly motivated, well-qualified personnel. We face significant competition in the recruitment of qualified employees. Our ability to execute our business strategy and provide high quality service may suffer if we are unable to recruit or retain a sufficient number of qualified employees or if the costs of employee compensation or benefits increase substantially. Further, in June 2010, the Federal Reserve and other federal banking regulators jointly issued comprehensive final guidance designed to ensure that incentive compensation policies do not undermine the safety and soundness of banking organizations by encouraging employees to take imprudent risks. This regulation significantly affects the amount, form, and context in which we pay incentive compensation. Additionally, the FRB, the FDIC, the SEC, and other federal regulatory agencies have jointly proposed rules which affect incentive compensation. These rules, if finalized, may adversely affect us by imposing costs and restrictions on the form of our incentive compensation which are not imposed on our non-bank competitors.

Other Risks

Our framework for managing risks may not be effective in mitigating risk and loss to us.

Our risk management framework seeks to mitigate risk and loss to us. We have established policies, processes, and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity, credit, market, operational, technology, reputational, legal, model, and compliance risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as risks may exist, or develop in the future, that we have not appropriately anticipated or identified. The most recent financial crisis and resulting regulatory reform highlighted both the importance and some of the limitations of managing unanticipated risks. If our risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

Our controls and procedures may not prevent or detect all errors or acts of fraud.

Our controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met, due to certain inherent limitations. These limitations include the realities that judgments in decision making can be faulty, that alternative reasoned judgments can be drawn, and that breakdowns can

occur because of an error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, whether within or outside of our Company, by collusion of two or more such people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected, which could result in a material weakness in our internal controls over financial reporting and/or the restatement of previously filed financial statements.

We are at risk of increased losses from fraud.

Criminals committing fraud increasingly are using more sophisticated techniques, and in some cases, are a part of larger criminal rings, which allow them to be more effective.

Fraudulent activity has taken many forms and escalates as more tools for accessing financial services emerge, such as real-time payments. Fraud schemes, including occurrences of employee fraud, information theft, or other malfeasance, are broad and continuously evolving and include such things as debit card/credit card fraud, check fraud, mechanical

devices attached to ATM machines, social engineering and phishing attacks to obtain personal information, or impersonation of our clients through the use of falsified or stolen credentials. For instance, in our Quarterly Report on Form 10-Q for the period ended March 31, 2018, we announced an investigation of a potential theft by a former employee of information from some of our contact lists. We proactively notified approximately 1.5 million clients that certain information, such as name, address, phone number, and certain account balances may have been exposed. The contact lists did not include personally identifying information, such as social security number, account number, PIN, user ID, password, or driver's license information. We heightened our monitoring of accounts and increased other related security measures to help prevent similar occurrences. Additionally, individuals or business entities may properly identify themselves, yet seek to establish a business relationship for the purpose of perpetrating fraud. An emerging type of fraud even involves the creation of synthetic identification in which bad actors "create" individuals for the purpose of perpetrating fraud. Further, in addition to fraud committed against us, we may suffer losses as a result of fraudulent activity committed against third parties. Increased deployment of technologies, such as chip card technology, defray and reduce aspects of fraud; however, criminals are turning to other sources to steal personally identifiable information, such as unaffiliated healthcare providers and government entities, in order to impersonate the consumer to commit fraud. Many of these data compromises have been widely reported in the media. Further, as a result of the increased sophistication of fraud activity, we have increased our spending on systems, resources, and controls to detect and prevent fraud, as well as increased spending to provide certain credit monitoring and identity theft protection services to our Consumer clients. This will result in continued ongoing investments in the future.

Our operational or communications systems or infrastructure may fail or may be the subject of a breach or cyber-attack that, if successful, could adversely affect our business or disrupt business continuity.

We depend on our ability to process, record, and monitor a large number of client transactions and to communicate with clients and other institutions on a continuous basis. As client, industry, public, and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure continue to be safeguarded and monitored for potential failures, disruptions, and breakdowns, whether as a result of events beyond our control or otherwise.

Our business, financial, accounting, data processing, or other operating systems and facilities may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be sudden increases in client transaction volume; electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes, floods, and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; occurrences of employee error, fraud, theft, or malfeasance; disruptions caused by technology implementation, including hardware deployment and software updates; and, as described below, cyber-attacks.

Although we have business continuity plans and other safeguards in place, our operations and communications may be adversely affected by significant and widespread disruption to our systems and infrastructure that support our businesses, clients, and teammates. While we continue to evolve and modify our business continuity plans, there can be no assurance in an escalating threat environment that they will be effective in avoiding disruption and business impacts. Our insurance may not be adequate to compensate us for all resulting losses, and the cost to obtain adequate coverage may increase for us or the industry.

Security risks for financial institutions such as ours have dramatically increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication, resources, and activities of hackers, terrorists, activists, industrial spies, insider bad actors, organized crime, and other external parties, including nation state actors. In addition, to access our products and services, clients may use devices and/or software that are beyond our control environment, which may provide additional avenues for attackers to gain access to confidential information. Although we have information security procedures and controls in place, our technologies, systems, networks, and clients' devices and software may become the target of cyber-attacks, information security breaches, business email compromise, or information theft that could result in the unauthorized release, gathering, monitoring, misuse, loss, change, or destruction of our or our clients' or teammates' confidential, proprietary, or other information (including personal identifying information of individuals), or otherwise disrupt our or our clients' or our third parties' business operations. U.S. financial institutions and financial service companies have reported breaches in the

security of their websites or other systems, including attempts to shut down access to their networks and/or systems in an attempt to extract compensation from them to regain control. Financial institutions, including SunTrust, have experienced distributed denial-of-service attacks, a sophisticated and targeted attack intended to disable or degrade internet service or to sabotage systems.

We and others in our industry are regularly the subject of attempts by attackers to gain unauthorized access to our networks, systems, and data, or to obtain, change, or destroy confidential data (including personal identifying information of individuals) through a variety of means, including computer viruses, malware, business email compromise, and phishing. These attacks may result in unauthorized individuals obtaining access to our confidential information or that of our clients or teammates, or otherwise accessing, compromising, damaging, or disrupting our systems or infrastructure.

We are continuously developing and enhancing our controls, processes, and practices designed to protect our systems, computers, software, data, and networks from attack, damage, or unauthorized access. This continued development and enhancement will require us to expend additional resources, including resources to investigate and remediate any information security vulnerabilities that may be detected. Despite our ongoing investments in security resources, talent, and business practices, we are unable to assure that any security measures will be effective.

If our systems and infrastructure were to be breached, compromised, damaged, or disrupted, or if we were to experience a loss of our confidential information or that of our clients or teammates, we could be subject to serious negative consequences, including disruption of our operations, damage to our reputation, a loss of trust in us on the part of our clients, vendors or other counterparties, client or teammate attrition, reimbursement or other costs, increased compliance costs, significant litigation exposure and legal liability, or regulatory fines, penalties or intervention. Any of these could materially and adversely affect our results of operations, our financial condition, and/or our share price.

A disruption, breach, or failure in the operational systems or infrastructure of our third party vendors or other service providers, including as a result of cyber-attacks, could adversely affect our business.

Third parties perform significant operational services on our behalf. These third parties with whom we do business or that facilitate our business activities, including exchanges, clearing houses, central clearing counterparties, financial intermediaries, or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. In particular, operating our business requires us to provide access to client, teammate, and other sensitive Company information to our contractors, consultants, and other third parties and authorized entities. Controls and oversight mechanisms are in place that are designed to limit access to this information and protect it from unauthorized disclosure, theft, and disruption. However, control systems and policies pertaining to system

access are subject to errors in design, oversight failure, software failure, human error, intentional subversion, or other compromise resulting in theft, error, loss, or inappropriate use of information or systems to commit fraud, cause embarrassment to us or our executives or to gain competitive advantage. In addition, regulators expect financial institutions to be responsible for all aspects of their performance, including aspects which they delegate to third parties. If a disruption, breach, or failure in the system or infrastructure of any third party with whom we do business occurred, our business may be materially and adversely affected in a manner similar to if our own systems or infrastructure had been compromised. As has been the case in other major system events in the U.S., our systems and infrastructure may also be attacked, compromised, or damaged as a result of, or as the intended target of, any disruption, breach, or failure in the systems or infrastructure of any third party with whom we do business.

Natural disasters and other catastrophic events could have a material adverse impact on our operations or our financial condition and results.

The occurrence of catastrophic events, such as hurricanes, tropical storms, tornados, winter storms, wildfires, earthquakes, mudslides, floods, and other large scale catastrophes, could adversely affect our financial condition or results of operations. We have significant operations and customers along the Gulf and Atlantic coasts as well as other regions of the U.S., which could be adversely impacted by hurricanes, tornados, and other severe weather in those areas. Unpredictable natural and other disasters could have an adverse effect on us in that such events could materially disrupt our operations or the ability or willingness of our customers to access the financial services that we offer, including adverse impacts on our borrowers to timely repay their loans and the value of any collateral that we hold. These events could reduce our earnings and cause volatility in our financial results for any fiscal quarter or year and have a material adverse effect on our financial condition or results of operations.

Although we have business continuity plans and other safeguards in place, our operations and communications may be adversely affected by natural disasters or other catastrophic events and there can be no assurance that such business continuity plans will be effective.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, central clearing counterparties, commercial banks, investment banks, mutual and hedge funds, and other institutional investors and clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, in the past have led to market-wide liquidity problems and could lead

to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of our exposure. There is no assurance that any such losses would not materially and adversely affect our results of operations and financial condition.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If the information that we rely on is not accurate or complete, our decisions about extending credit or entering into other transactions with clients or counterparties could be adversely affected, and we could suffer defaults, credit losses, or other negative

consequences as a result.

Our accounting policies and processes are critical to how we report our financial condition and results of operation. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how we record and report our financial condition and results of operation. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Several of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions.

Pursuant to U.S. GAAP, we are required to make certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves, reserves related to litigation and the fair value of certain assets and liabilities, including the value of goodwill, among other items. If assumptions or estimates underlying our financial statements are incorrect, or are adjusted periodically, we may experience material losses.

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability, or recognizing or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates

pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. We discuss these topics in greater detail in the “Critical Accounting Policies” section of Item 7, MD&A, and Note 1, “Significant Accounting Policies,” to the Consolidated Financial Statements in this Form 10-K.

Further, from time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be hard to predict and could materially affect how we report our financial results and condition. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements. We discuss recently issued accounting pronouncements, including both those which we have already adopted in full or in part, and those which we will adopt in the future, at Note 1, “Significant Accounting Policies,” to the Consolidated Financial Statements in this Form 10-K.

Depressed market values for our stock and adverse economic conditions sustained over a period of time may require us to write down all or some portion of our goodwill.

Goodwill is periodically tested for impairment by comparing the fair value of each reporting unit to its carrying amount. If the fair value is greater than the carrying amount, then the reporting unit’s goodwill is deemed not to be impaired. The fair value of a reporting unit is impacted by the reporting unit’s expected financial performance and susceptibility to adverse economic, regulatory, and legislative changes. The estimated fair values of the individual reporting units are assessed for reasonableness by reviewing a variety of indicators, including comparing these estimated fair values to our market capitalization over a reasonable period of time. While this comparison provides some relative market information regarding the estimated fair value of the reporting units, it is not determinative and needs to be evaluated in the context of the current economic environment. However, significant and sustained declines in our market capitalization could be an indication of potential goodwill impairment. See the “Critical Accounting Policies” section of Item 7, MD&A, in this Form 10-K for additional information.

Risks Related to Our Common Stock

Our stock price can be volatile.

Our stock price can fluctuate widely in response to a variety of factors including, but not limited to:

- variations in our quarterly financial results
- changes in market valuations of companies in the financial services industry
- governmental and regulatory legislation or actions
- issuances of shares of common stock or other securities in the future
- changes in dividends and capital returns
- the addition or departure of key personnel
- cyclical economic or market fluctuations
- changes in financial estimates or recommendations by securities analysts regarding us or shares of our common stock
- our forward-looking statements or changes in our forward looking statements
- announcements by us or our competitors of new services or technology, mergers, acquisitions, or joint ventures
- the stock price of BB&T (given the proposed Merger)
- activity by short sellers and changing government restrictions on such activity

General market fluctuations, industry factors, and general economic and political conditions and events, such as cyber or terrorist attacks, economic slowdowns or recessions, trade disputes or changes in tariffs, interest rate changes, credit loss trends, or currency fluctuations, also could cause our stock price to decrease regardless of operating results. For

the above and other reasons, the market price of our securities may not accurately reflect the underlying value of our securities, and you should consider this before relying on the market prices of our securities when making an investment decision.

We might not pay dividends on our stock.

Holders of our stock are only entitled to receive such dividends that our Board declares out of funds legally available for such payments. Although we have historically declared cash dividends on our stock, we are not required to do so. The Federal Reserve has indicated that increased capital distributions generally would not be considered prudent in the absence of a well-developed capital plan and a capital position that would remain strong even under adverse conditions. As a result, any increase in our dividend requires a non-objection from the Federal Reserve.

Our ability to receive dividends from our subsidiaries or other investments could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from our subsidiaries and other investments. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that our Bank and certain of our nonbank subsidiaries may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. Limitations on our ability to receive dividends from our subsidiaries could have a material adverse effect on our liquidity and on our ability to pay dividends on our common stock. Additionally, if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our owners.

Certain banking laws and certain provisions of our articles of incorporation may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our owners. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer “controls” the bank holding company or depository institution, and thus, unless the acquirer is able to rebut this presumption, it would be subject to various laws and regulations that bank holding companies are subject to. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things,

acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including our bank.

There also are provisions in our amended and restated articles of incorporation and amended and restated bylaws, such as limitations on the ability to call a special meeting of our shareholders, that may be used to delay or block a takeover attempt. In addition, our Board will be authorized under our amended and restated articles of incorporation to issue shares of our preferred stock and to determine the rights, terms, conditions, and privileges of such preferred stock, without shareholder approval. These provisions may effectively inhibit a non-negotiated merger or other business combination.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal executive offices are located in SunTrust Plaza, Atlanta, Georgia. The 60-story office building is majority-owned by SunTrust Banks, Inc. At December 31, 2018, the Bank operated 1,218 full-service banking offices, of which 545 were owned and the remainder were leased. Full-service banking

offices are located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia. See Note 9, “Premises, Property, and Equipment,” to the Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding our properties.

Item 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to numerous claims and lawsuits arising in the normal course of its business activities, some of which involve claims for substantial amounts. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material effect on the Company’s

consolidated results of operations, cash flows, or financial condition. For additional information, see Note 21, “Contingencies,” to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K, which is incorporated

herein by reference.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II**Item MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS****5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

The principal market in which SunTrust common stock is traded is the NYSE (trading symbol "STI"). For the quarterly high and low sales prices of SunTrust common stock for the last two years, see Table 29 in Item 7 of this Form 10-K, which is incorporated by reference into this Item 5. During the year ended December 31, 2018, SunTrust paid a quarterly dividend on common stock of \$0.40 per common share for the first and second quarters and \$0.50 per common share for the third and fourth quarters, compared to a quarterly dividend on common stock of \$0.26 per common share for the first and second quarters of 2017 and \$0.40 per common share for the third and fourth quarters of 2017. SunTrust common stock was held by 20,687 holders of record at December 31, 2018. See the "Equity Securities" section of this Item 5 for information on share repurchase activity, publicly announced plans and programs, and the remaining repurchase authority under the announced plans and programs.

Please also refer to Item 1, "Business," for a discussion of restrictions that may affect SunTrust's ability to pay dividends,

Item 1A, "Risk Factors," for a discussion of some risks related to SunTrust's dividends, and the "Capital Resources" section of Item 7 for a discussion of dividends paid during the year and factors that may affect future levels of dividends.

The information under the caption "Equity Compensation Plans" in the Company's definitive Proxy Statement for its 2019 Annual Meeting of Shareholders to be held on April 23, 2019 and to be filed with the SEC is incorporated by reference into this Item 5.

The following graph and table compare the cumulative total shareholder return on SunTrust common stock compared to the cumulative total return of the S&P 500 Index and the S&P 500 Banks Industry Index for the five years commencing December 31, 2013 (at market close) and ending December 31, 2018. The foregoing analysis assumes simultaneous initial investments of \$100 and the reinvestment of all dividends in SunTrust common stock and in each of the above indices.

	Cumulative Total Return for the Years Ended December 31					
	2013	2014	2015	2016	2017	2018
SunTrust (STI)	\$100.00	\$115.91	\$121.13	\$158.80	\$191.33	\$153.40
S&P 500 Index	100.00	113.68	115.24	129.02	157.17	150.27
S&P 500 Banks Industry Index	100.00	115.51	116.49	144.81	177.47	148.30

Equity Securities

Issuer purchases of equity securities during the year ended December 31, 2018 are presented in the following table:

	Common Stock ^{1,2}			
	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Equity that May Yet Be Purchased Under the Plans or Programs at Period End (in millions)
January 1 - 31	4,550,359	\$68.03	4,550,359	\$350
February 1 - 28	287,254	71.08	287,254	330
March 1 - 31	—	—	—	330
Total during first quarter of 2018	4,837,613	68.22	4,837,613	330
April 1 - 30	4,910,576	67.20	4,910,576	—
May 1 - 31	—	—	—	—
June 1 - 30	—	—	—	—
Total during second quarter of 2018	4,910,576	67.20	4,910,576	—
July 1 - 31	4,487,600	69.90	4,487,600	1,686
August 1 - 31	2,556,079	72.88	2,556,079	1,500
September 1 - 30	—	—	—	1,500
Total during third quarter of 2018	7,043,679	70.99	7,043,679	1,500
October 1 - 31	9,360,426	63.03	9,360,426	910
November 1 - 30	2,542,720	62.95	2,542,720	750
December 1 - 31	—	—	—	750
Total during fourth quarter of 2018	11,903,146	63.01	11,903,146	750
Total 2018	28,695,014	\$66.56	28,695,014	\$750

¹ The principal market in which SunTrust common stock is traded is the NYSE (trading symbol "STT").

² During the year ended December 31, 2018, no shares of SunTrust common stock were surrendered by participants in SunTrust's employee stock option plans, where participants may pay the exercise price upon exercise of SunTrust stock options by surrendering shares of SunTrust common stock that the participant already owns. SunTrust considers any such shares surrendered by participants in SunTrust's employee stock option plans to be repurchased pursuant to the authority and terms of the applicable stock option plan rather than pursuant to publicly announced share repurchase programs.

During the second quarter of 2018, the Company completed its authorized repurchases of common equity under the 2017 CCAR capital plan, which the Company initially announced on June 28, 2017 and which effectively expired on June 30, 2018.

On June 28, 2018, the Company announced that the Federal Reserve had no objections to the repurchase of up to \$2.0 billion of the Company's outstanding common stock to be completed between July 1, 2018 and June 30, 2019, as part of the Company's 2018 capital plan submitted in connection with the 2018 CCAR. During the second half of 2018, the Company repurchased \$1.25 billion of its outstanding common stock at market value as part of this publicly announced 2018 capital plan. At December 31, 2018, the Company had \$750 million of remaining common stock repurchase capacity available under its 2018 capital plan (reflected in the table above).

At December 31, 2018, a total of 7,445 Series A and B warrants to purchase the Company's common stock were not exercised prior to their expiration dates of December 31, 2018 and November 14, 2018, respectively.

In the first quarter of 2018, the Company redeemed all 4,500 issued and outstanding shares of its Series E Preferred Stock in accordance with the terms of the Series E Preferred Stock. The Company did not repurchase any shares of its Series A Preferred Stock, Series B Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, or Series H Preferred Stock during the year ended December 31, 2018, and at December 31, 2018, there was no unused Board authority to repurchase any shares of its Series A Preferred Stock, Series B Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, or Series H Preferred Stock.

See Note 15, "Capital," to the Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company's equity securities.

Item 6. SELECTED FINANCIAL DATA

(Dollars in millions and shares in thousands, except per share data)	Year Ended December 31				
	2018	2017	2016	2015	2014
Summary of Operations:					
Interest income	\$7,205	\$6,387	\$5,778	\$5,265	\$5,384
Interest expense	1,218	754	557	501	544
Net interest income	5,987	5,633	5,221	4,764	4,840
Provision for credit losses	208	409	444	165	342
Net interest income after provision for credit losses	5,779	5,224	4,777	4,599	4,498
Noninterest income	3,226	3,354	3,383	3,268	3,323
Noninterest expense	5,673	5,764	5,468	5,160	5,543
Income before provision for income taxes	3,332	2,814	2,692	2,707	2,278
Provision for income taxes	548	532	805	764	493
Net income attributable to noncontrolling interest	9	9	9	10	11
Net income	\$2,775	\$2,273	\$1,878	\$1,933	\$1,774
Net income available to common shareholders	\$2,668	\$2,179	\$1,811	\$1,863	\$1,722
Adjusted net income available to common shareholders ¹	\$2,668	\$2,179	\$1,811	\$1,863	\$1,729
Net interest income-FTE ¹	\$6,075	\$5,778	\$5,359	\$4,906	\$4,982
Total revenue	9,213	8,987	8,604	8,032	8,163
Total revenue-FTE ¹	9,301	9,132	8,742	8,174	8,305
Total adjusted revenue-FTE ¹	9,301	9,132	8,742	8,174	8,200
Net income per average common share:					
Diluted	\$5.74	\$4.47	\$3.60	\$3.58	\$3.23
Adjusted diluted ¹	5.74	4.47	3.60	3.58	3.24
Basic	5.79	4.53	3.63	3.62	3.26
Dividends declared per common share	1.80	1.32	1.00	0.92	0.70
Book value per common share	49.57	47.94	45.38	43.45	41.32
Tangible book value per common share ¹	35.73	34.82	32.95	31.45	29.62
Market capitalization	22,541	30,417	26,942	21,793	21,978
Period End Balances:					
Total assets	\$215,543	\$205,962	\$204,875	\$190,817	\$190,328
Earning assets	192,497	182,710	184,610	172,114	168,678
LHFI	151,839	143,181	143,298	136,442	133,112
ALLL	1,615	1,735	1,709	1,752	1,937
Consumer and commercial deposits	161,544	159,795	158,864	148,921	139,234
Long-term debt	15,072	9,785	11,748	8,462	13,022
Total shareholders' equity	24,280	25,154	23,618	23,437	23,005
Selected Average Balances:					
Total assets	\$207,277	\$204,931	\$199,004	\$188,892	\$182,176
Earning assets	186,154	184,212	178,825	168,813	162,189
LHFI	145,714	144,216	141,118	133,558	130,874
Intangible assets including residential MSRs	8,372	8,034	7,545	7,604	7,630
Residential MSRs	1,963	1,615	1,190	1,250	1,255
Consumer and commercial deposits	159,768	159,549	154,189	144,202	132,012
Long-term debt	12,458	11,065	10,767	10,873	12,359
Preferred stock	2,115	1,792	1,225	1,225	800
Total shareholders' equity	24,210	24,301	24,068	23,346	22,170
Average common shares - diluted	464,961	486,954	503,466	520,586	533,391
Average common shares - basic	460,922	481,339	498,638	514,844	527,500
Financial Ratios:					

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Effective tax rate	16	% 19	% 30	% 28	% 22	%
ROA	1.34	1.11	0.94	1.02	0.97	
ROE	12.13	9.72	7.97	8.46	8.10	
ROTCE ¹	16.89	13.39	10.91	11.75	11.49	
Net interest margin	3.22	3.06	2.92	2.82	2.98	
Net interest margin-FTE ¹	3.26	3.14	3.00	2.91	3.07	
Efficiency ratio	61.58	64.14	63.55	64.24	67.90	
Efficiency ratio-FTE ¹	60.99	63.12	62.55	63.13	66.74	
Tangible efficiency ratio-FTE ¹	60.21	62.30	61.99	62.64	66.44	
Adjusted tangible efficiency ratio-FTE ¹	59.56	61.04	61.99	62.64	63.34	
Total average shareholders' equity to total average assets	11.68	11.86	12.09	12.36	12.17	
Tangible common equity to tangible assets ¹	7.63	8.21	8.15	8.67	8.44	
Common dividend payout ratio	31.0	29.1	27.5	25.5	21.5	

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Item 6. SELECTED FINANCIAL DATA (continued)

	Year Ended December 31				
	2018	2017	2016	2015	2014
Capital Ratios at period end ²:					
CET1 (Basel III)	92.1 74	95.9	96	N/A	
Tier 1 common equity (Basel I)	N/A	N/A	N/A	96.0	
Tier 1 capital	10.3 1.15	10.28	10.80	10.80	
Total capital	12.0 3.09	12.26	12.54	12.51	
Leverage	9.2 9.80	9.22	9.69	9.64	

¹ See Table 29 in Item 7 (MD&A) of this Form 10-K for a reconciliation of non-U.S. GAAP measures and additional information.

Basel III Final Rules became effective for the Company on January 1, 2015; thus, Basel III CET1 ratios are not applicable ("N/A") in periods ending prior to January 1, 2015 and Basel I Tier 1 common equity ratio is N/A in periods ending after January 1, 2015. Tier 1 capital, Total capital, and Leverage ratios for periods ended prior to January 1, 2015 were calculated under Basel I. Basel III capital ratios are calculated under the standardized approach using regulatory capital methodology applicable to the Company for each period presented, including the phase-in of transition provisions through January 1, 2018.

**MANAGEMENT'S
DISCUSSION
AND ANALYSIS**
**Item 7. OF FINANCIAL
CONDITION
AND RESULTS
OF OPERATION**

INTRODUCTION

We are a leading provider of financial services, with our headquarters located in Atlanta, Georgia. We are an organization driven by our Company purpose of *Lighting the Way to Financial Well-Being* — helping instill a sense of confidence in the financial circumstances of clients, communities, teammates, and owners is at the center of everything we do. Our principal subsidiary, SunTrust Bank, offers a full line of financial services for consumers, businesses, corporations, institutions, and not-for-profit entities, both through branches (located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia) and through other digital and national delivery channels. In addition to deposit, credit, mortgage banking, and trust and investment services offered by the Bank, our other subsidiaries provide capital markets, securities brokerage, investment banking, and wealth management services. We operate two business segments: Consumer and Wholesale, with functional activities included in Corporate Other. See Note 22, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-K for a description of our business segments.

This MD&A is intended to assist readers in their analysis of the accompanying Consolidated Financial Statements and supplemental financial information. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements in Part II, Item 8 of this Form 10-K, as well as with the other information contained in this document. When we refer to "SunTrust," "the Company," "we," "our," and "us" in this report, we mean SunTrust Banks, Inc. and its consolidated subsidiaries.

In this MD&A, consistent with SEC guidance in Industry Guide 3 that contemplates the calculation of tax-exempt income on a tax equivalent basis, we present net interest income, net interest margin, total revenue, and efficiency ratios on an FTE basis. The FTE basis adjusts for the tax-favored status of net interest income from certain loans and investments using a federal tax rate of 21% for all periods beginning on or after January 1, 2018 and 35% for all periods prior to January 1, 2018, as well as state income taxes, where applicable, to increase tax-exempt interest income to a taxable-equivalent basis. We believe the FTE basis is the preferred industry measurement basis for net interest income, net interest margin, total revenue, and efficiency ratios, and that it enhances comparability of net interest income and total revenue arising from taxable and tax-exempt sources. Additionally, we present other non-U.S. GAAP metrics to assist investors in understanding management's view of particular financial measures, as well as to align presentation of these financial measures with peers in the industry who may also provide a similar presentation. Reconcilements for all non-U.S. GAAP measures are provided in Table 29.

EXECUTIVE OVERVIEW

Recent Event

On February 7, 2019, we announced that our Board approved a definitive agreement to combine with BB&T Corporation ("BB&T") in an all-stock Merger. Under the terms of the Agreement and Plan of Merger (the "Merger Agreement"), our shareholders will have the right to receive 1.295 shares of BB&T common stock for each share of our common stock. A new corporate headquarters for the combined company will be established in Charlotte, North Carolina, and it will operate under a new name and brand, while the combined company's board of directors and executive management team will be evenly split between SunTrust and BB&T. The Merger is expected to expand capabilities and accelerate capacity to invest in transformational technologies for clients, combine complementary business models to create a diverse and comprehensive business mix with leading market share positions, and deliver

organizational and other merger-related synergies, while also being accretive to the combined company's profitability profile. Our Merger with BB&T is expected to close late in the third quarter of 2019 or in the fourth quarter of 2019, subject to satisfaction of customary closing conditions, including receipt of regulatory approvals and approval by the shareholders of each company. For more information on our proposed Merger with BB&T, see Part I, Item 1, "Business," and Note 25, "Subsequent Event," to the Consolidated Financial Statements in this Form 10-K.

Financial Performance

We delivered a seventh consecutive year of improved performance, efficiency, and capital returns for our owners, driven by a favorable operating environment, continued strong credit quality, and solid loan growth. We enjoyed solid revenue growth across both of our business segments, led by growth in net interest income. Diluted EPS for 2018 was \$5.74, up 28% relative to 2017. For 2017, EPS included \$0.39 per share in net benefits associated with actions we announced in our December 4, 2017 Form 8-K as well as the impact of the 2017 Tax Act and actions we took as a result to better position the Company for improved long-term success ("Form 8-K and tax reform-related items"). Total revenue for 2018 increased 2% compared to 2017, as higher net interest income was partially offset by lower noninterest income.

Net interest income increased 5% relative to 2017 due to net interest margin expansion and growth in average earning assets, partially offset by an increase in average interest-bearing liabilities and associated funding costs. Net interest margin for 2018 increased 12 basis points, to 3.26%. The increase was driven by a 40 basis point increase in average earning asset yields arising from higher benchmark interest rates, favorable mix shift in earning assets, and lower premium amortization expense, offset partially by higher funding costs. Looking to the first quarter of 2019, we expect net interest margin to be generally stable compared to the fourth quarter of 2018; thereafter, net

interest margin trends will depend on the interest rate environment, future levels of loan growth, and funding costs. Noninterest income decreased \$128 million, or 4%, compared to 2017, driven primarily by lower mortgage and capital markets-related income as well as lower client transaction-related fees, offset partially by increases in other noninterest income, commercial real estate related income, and wealth management-related income. See additional discussion related to revenue, noninterest income, and net interest income and margin in the "Noninterest Income" and "Net Interest Income/Margin" sections of this MD&A. Also in this MD&A, see Table 21, "Net Interest Income Asset Sensitivity," for an analysis of potential changes in net interest income due to instantaneous moves in benchmark interest rates.

Noninterest expense decreased \$91 million, or 2%, compared to 2017, driven primarily by the \$111 million of net Form 8-K and tax reform-related items recognized during the fourth quarter of 2017, offset partially by higher outside processing and software expense and the \$60 million pre-tax NCF Retirement Plan settlement charge recognized in the fourth quarter of 2018. Looking to the first quarter of 2019, we expect core personnel expenses—which excludes the fourth quarter of 2018 NCF Retirement Plan settlement charge of \$60 million—to increase by approximately \$60 million to \$75 million from the fourth quarter of 2018 due primarily to seasonal increases in 401(k) and FICA expenses. See additional discussion related to noninterest expense in the "Noninterest Expense" section of this MD&A.

For 2018, our efficiency and tangible efficiency ratios were 61.0% and 60.2%, compared to the prior year ratios of 63.1% and 62.3%, respectively. Our current year efficiency ratios were negatively impacted by the NCF Retirement Plan settlement charge recognized during the fourth quarter of 2018; when excluding the impact of this item, our adjusted tangible efficiency ratio improved to 59.6% for 2018, compared to 61.0% for 2017, which is the highest degree of improvement we have delivered since 2014. This strong efficiency progress enabled us to reach our target of below 60% one year earlier than our stated goal. We expect efficiency improvement to moderate in 2019, given our strong progress in 2018 and less anticipated macroeconomic tailwinds. Despite this, we continue to expect improvement and expense discipline as we work towards our medium-term target of between 56% and 58% for SunTrust when viewed as a stand-alone company. Upon consummation of the Merger, we expect our efficiency to improve significantly as we realize merger-related synergies. We remain focused on creating capacity to invest in technology and talent, which we believe will create the most long-term value for our clients and owners. See Table 29, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information regarding, and reconciliations of, our tangible and adjusted tangible efficiency ratios.

Overall asset quality remained very strong during 2018, evidenced by our 0.23% net charge-offs to total average LHFI ratio and 0.35% NPL to period-end LHFI ratio. In addition, our ALLL to period-end LHFI ratio (excluding loans measured at fair value) decreased 15 basis points compared to 2017 due primarily to improved economic and credit conditions. These low levels reflect the relative strength across our entire LHFI portfolio, though we recognize that there could be normalization

moving forward. Looking to 2019, we expect to operate within a net charge-offs to total average LHFI ratio of between 25 and 30 basis points. Additionally, we expect the ALLL to period-end LHFI ratio to generally stabilize, which would result in a provision for loan losses that modestly exceeds net charge-offs, given loan growth. See additional discussion of our credit and asset quality, in the "Loans," "Allowance for Credit Losses," and "Nonperforming Assets" sections of this MD&A.

Average LHFI grew 1% compared to 2017 as improved lending trends continued, driven by growth in consumer direct, nonguaranteed residential mortgages, CRE, consumer indirect, and guaranteed student loans. These increases were offset partially by declines in average home equity products, C&I, and commercial construction loans. Our consumer lending initiatives continue to produce solid loan growth through each of our major channels, while furthering the positive mix shift within the LHFI portfolio and improving our return profile. See additional loan discussions in the "Loans," "Nonperforming Assets," and "Net Interest Income/Margin" sections of this MD&A. Average consumer and commercial deposits increased \$219 million in 2018, relatively stable compared to 2017 as growth in time deposits and NOW accounts were offset largely by declines in money market accounts and noninterest-bearing deposits. Our clients continue to migrate from lower-cost deposits to CDs, largely due to higher rates and our targeted strategy that allows us to retain our existing depositors and capture new market share, while also managing our asset sensitivity profile. Rates paid on our interest-bearing consumer and commercial deposits increased

25 basis points compared to 2017 in response to rising benchmark interest rates, the move towards higher-cost deposits, and the pickup in lending activity. Looking forward to 2019, we expect deposit costs to continue to trend upwards, with the trajectory influenced by the interest rate environment and our loan growth. We remain focused on investing in products and capabilities that enhance the client experience, outside of rate paid. See additional discussion regarding average deposits in the "Net Interest Income/Margin" and "Deposits" sections of this MD&A.

Capital

Our capital ratios continue to be well above regulatory requirements. The CET1 ratio decreased to 9.21% at December 31, 2018, a 53 basis point decline compared to December 31, 2017, driven primarily by growth in risk weighted assets and higher share repurchases, offset partially by an increase in retained earnings. The Tier 1 capital and Total capital ratios declined compared to December 31, 2017, due to the impact of our redemption of all outstanding shares of Series E Preferred Stock in the first quarter of 2018 as well as the aforementioned impacts to our CET1 ratio. Our book value and tangible book value per common share both increased by 3% compared to December 31, 2017, driven by growth in retained earnings. See additional details related to our capital in Note 15, "Capital," to the Consolidated Financial Statements in this Form 10-K and in the "Capital Resources" section of this MD&A. Also see Table 29, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information regarding, and a reconciliation of, tangible book value per common share.

During the year, we increased our quarterly common stock dividend by 25%, beginning in the third quarter of 2018, which resulted in dividends for 2018 of \$1.80 per common share, an increase from \$1.32 per common share in 2017. We also repurchased \$1.9 billion of our outstanding common stock during the year, which included \$660 million under our 2017 capital plan and \$1.25 billion in conjunction with the 2018 capital plan. In January 2019, we repurchased an additional \$250 million of our outstanding common stock under the 2018 capital plan pursuant to an SEC Rule 10b5-1 repurchase plan entered into on November 6, 2018. Given the aforementioned Merger announcement in February 2019, we do not intend to utilize our remaining share repurchase capacity of \$500 million under the 2018 capital plan. See the “Recent Event” section above for more on the Merger announcement. For additional details related to our capital actions and share repurchases, refer to the “Capital Resources” section of this MD&A and Part II, Item 5 of this Form 10-K.

Business Segments Highlights

Consumer

Our investments across Consumer Lending, together with our strategic partnerships, have collectively improved our growth, returns, and the diversity of our portfolio. Enhanced marketing and analytics, new product offerings, and increased referrals have been key contributors to our growth in LightStream and direct consumer lending, including point-of-sale digital financing.

Net interest income increased \$329 million, or 8%, compared to 2017, as a result of continued loan growth and improved deposit spreads. Noninterest income decreased \$101 million, or 5%, compared to 2017, due primarily to lower mortgage-related income as a result of lower refinance volume and lower gain on sale margins. The decline in noninterest income was offset slightly by wealth management-related income where we are observing positive underlying trends, including a \$4.2 billion increase in new production assets under management during 2018. The average balance of our LHFI portfolio increased \$1.8 billion, or 3%, compared to 2017. We continue to deliver high quality loan growth, reflecting our consistent underwriting discipline and conservative risk posture. This is evidenced by our new production FICOs within consumer lending, which averaged 766 in 2018, stable compared to 2017.

Our loan growth during 2018 was funded entirely with deposit growth. Our targeted focus on CDs attracted both new clients and existing clients and generated approximately \$2.8 billion in average CD growth compared to 2017. We delivered strong operating leverage in 2018, resulting in 200 basis points in efficiency improvement. Our efficiency ratio was 66.5% for 2018, compared to 68.5% for 2017. The decrease was due primarily to improved revenues combined with our ongoing expense discipline which allowed us to make significant progress towards our medium term objectives. This improvement was driven by a number of actions including organizational restructuring, increased automation, and increased digital adoption. We have also made significant strides in improving the client experience, driven largely by our investments in technology. During 2018, we introduced a fully

digital mortgage application, SmartGUIDE, which streamlines our underwriting process. For our private wealth clients, we introduced a new digital client portal to provide them with enhanced financial planning tools and a holistic view of their financial position. These investments, combined with our talented team, played a significant role in the national recognition we received in 2018 for differentiated client experience.

We completed the merger of our STM and Bank legal entities in the third quarter of 2018. This merger simplified our organizational structure, enabled operational efficiencies, and allowed us to more fully serve the needs of our clients irrespective of whether they began their SunTrust relationship with a mortgage or another lending or deposit product. Subsequent to the merger, mortgage operations have continued under the Bank’s charter. See Note 22, “Business Segment Reporting,” to the Consolidated Financial Statements in this Form 10-K for additional information.

Wholesale

Our advice-driven, middle-market strategy within the Wholesale segment continues to drive good results. We achieved record revenue and net income in 2018, buoyed by strong net interest income and continued expense discipline. The quality of our people, the advice they deliver, and the way we work together have enabled us to meet more client needs and provide superior execution in varying market conditions.

Net interest income increased \$99 million, or 5%, compared to 2017, as a result of net interest margin expansion and loan growth. Noninterest income decreased \$39 million, or 2%, compared to 2017, due primarily to a decrease in loan syndications, which is a reflection of both market conditions and the impact of competition from non-bank lenders. Notwithstanding these declines, the underlying momentum in our capital markets business is strong, with mergers and acquisition and equity-related income up 14% and capital market fees from Commercial Banking, Commercial Real Estate, and PWM clients up 49% year-to-date. We are highly encouraged by our progress and believe we are uniquely positioned to succeed in this space, given our full set of capabilities and OneTeam approach. In addition, we also had a particularly good year in structured real estate as a result of our strong client relationships and structuring expertise. The average balance of our LHFI portfolio increased \$806 million, or 1%, compared to 2017, due primarily to improved lending trends compared to 2017. Our loan growth in C&I during the second half of 2018 was driven by mergers and acquisitions, increased revolver utilization, and investments made in expanding our industry penetration and geographical reach, evidenced by the announcement of our new Houston commercial office in November 2018. Our loan growth in Commercial Real Estate resulted from investments made in new lending capabilities. During 2017, we added permanent and bridge financing capabilities which helped to offset the runoff in the construction portfolio and afforded us the opportunity to participate in the full life cycle of an asset. We remain focused on investing in technology to arm our teammates with the tools they need to maximize effectiveness and to improve the experience for our clients, particularly in Treasury & Payment Solutions. During 2018, we transitioned to SunView, our new treasury and payments platform, and we are

now focused on expanding SunView to a broader Wholesale client portal.

Overall, despite challenging market conditions, our pipelines are strong and we believe we are well positioned to meet our clients' needs. As we continue to see the benefits of our differentiated business model, we are pleased with the progress made and will continue to execute our advice-driven strategy.

Additional information related to our business segments can be found in Note 22, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-K, and further discussion of our business segment results for the year ended December 31, 2018 and 2017 can be found in the "Business Segment Results" section of this MD&A.

	2018			2017			2016		
	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Expense	Yields/Rates	Average Balances	Income/Yields/Expense/Rates	
(Dollars in millions)									
ASSETS									
LHFI: ¹									
C&I	\$67,648	\$2,575	3.81 %	\$68,423	\$2,286	3.34 %	\$68,406	\$2,148	3.14 %
CRE	6,100	252	4.13	5,158	177	3.43	5,808	169	2.92
Commercial construction	3,391	158	4.65	4,011	148	3.70	2,898	94	3.25
Residential mortgages - guaranteed	550	17	3.08	539	16	2.92	575	20	3.45
Residential mortgages - nonguaranteed	27,439	1,058	3.86	26,392	1,003	3.80	25,554	964	3.77
Residential home equity products	9,801	478	4.87	10,969	470	4.28	12,297	484	3.94
Residential construction	212	10	4.49	346	15	4.26	377	17	4.39
Consumer student - guaranteed	6,862	342	4.98	6,464	286	4.42	5,551	224	4.03
Consumer other direct	9,521	515	5.41	8,239	406	4.93	6,871	313	4.56
Consumer indirect	11,917	454	3.81	11,492	401	3.49	10,712	365	3.40
Consumer credit cards	1,562	180	11.55	1,429	145	10.12	1,188	120	10.10
Nonaccrual ²	711	19	2.67	754	32	4.28	881	21	2.43
Total LHFI	145,714	6,058	4.16	144,216	5,385	3.73	141,118	4,939	3.50
Securities AFS: ³									
Taxable	30,984	830	2.68	30,106	743	2.47	27,629	630	2.28
Tax-exempt	625	19	2.99	433	13	2.99	189	6	3.37
Total securities AFS	31,609	849	2.69	30,539	756	2.47	27,818	636	2.29
Fed funds sold and securities borrowed or purchased under agreements to resell	1,437	25	1.68	1,215	9	0.69	1,241	1	0.10
LHFS	2,050	101	4.91	2,483	99	4.00	2,570	92	3.60
Interest-bearing deposits in other banks	25	—	2.36	25	—	1.20	24	—	0.40
Interest earning trading assets	4,775	152	3.18	5,152	120	2.33	5,467	95	1.73
Other earning assets ³	544	20	3.68	582	18	3.12	587	15	2.51
Total earning assets	186,154	7,205	3.87	184,212	6,387	3.47	178,825	5,778	3.23
ALLL	(1,676)			(1,735)			(1,746)		
Cash and due from banks	4,845			5,123			4,999		
Other assets	17,999			16,376			14,880		
Noninterest earning trading assets and derivative instruments	644			903			1,388		
Unrealized (losses)/gains on securities available for sale, net	(689)			52			658		
Total assets	\$207,277			\$204,931			\$199,004		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	\$46,170	\$241	0.52 %	\$45,009	\$131	0.29 %	\$40,949	\$55	0.13 %
Money market accounts	50,042	268	0.54	53,592	157	0.29	53,795	107	0.20
Savings	6,647	1	0.02	6,519	1	0.02	6,285	2	0.03
Consumer time	6,332	64	1.00	5,626	42	0.75	5,852	43	0.73
Other time	7,986	120	1.50	5,148	57	1.10	3,908	39	1.00
Total interest-bearing consumer and commercial deposits	117,177	694	0.59	115,894	388	0.34	110,789	246	0.22
Brokered time deposits	1,031	15	1.47	941	12	1.29	926	12	1.33
Foreign deposits	94	2	1.88	421	4	0.86	123	1	0.42
Total interest-bearing deposits	118,302	711	0.60	117,256	404	0.34	111,838	259	0.23
Funds purchased	1,377	27	1.93	1,217	13	1.02	1,055	4	0.37
Securities sold under agreements to repurchase	1,688	31	1.77	1,558	15	0.92	1,734	7	0.42
Interest-bearing trading liabilities	1,270	40	3.16	968	26	2.70	1,025	24	2.29
Other short-term borrowings	2,214	34	1.53	1,591	8	0.50	1,452	3	0.23

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Long-term debt	12,458	375	3.01	11,065	288	2.60	10,767	260	2.42
Total interest-bearing liabilities	137,309	1,218	0.89	133,655	754	0.56	127,871	557	0.44
Noninterest-bearing deposits	42,591			43,655			43,400		
Other liabilities	2,492			2,936			3,252		
Noninterest-bearing trading liabilities and derivative instruments	675			384			413		
Shareholders' equity	24,210			24,301			24,068		
Total liabilities and shareholders' equity	\$207,277			\$204,931			\$199,004		
Interest rate spread			2.98 %			2.91 %			2.79 %
Net interest income ⁴		\$5,987			\$5,633			\$5,221	
Net interest income-FTE ^{4,5}		\$6,075			\$5,778			\$5,359	
Net interest margin ⁶			3.22 %			3.06 %			2.92 %
Net interest margin-FTE ^{5,6}			3.26			3.14			3.00

¹ Interest income includes loan fees of \$166 million, \$177 million, and \$165 million for the years ended December 31, 2018, 2017, and 2016, respectively.

² Income on consumer and residential nonaccrual loans, if recognized, is recognized on a cash basis.

³ Beginning January 1, 2018, we began presenting equity securities previously presented in securities AFS (taxable) as other earning assets. Prior periods have been revised to conform to the current presentation for comparability.

⁴ Derivative instruments employed to manage our interest rate sensitivity decreased net interest income \$72 million for the year ended December 31, 2018 and increased net interest income \$104 million and \$261 million for the years ended December 31, 2017 and 2016, respectively.

⁵ See Table 29, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information and reconciliations of non-U.S. GAAP performance measures. Approximately 95% of the total FTE adjustment for each of the years ended December 31, 2018, 2017, and 2016 was attributed to C&I loans.

⁶ Net interest margin is calculated by dividing annualized net interest income by average total earning assets.

Analysis of Changes in Net Interest Income ¹Table
2

(Dollars in millions)	2018 Compared to 2017			2017 Compared to 2016		
	Volum	Rate	Net	Volum	Rate	Net
(Decrease)/Increase in Interest Income:						
LHFI:						
C&I	(\$26)	\$315	\$289	\$—	\$138	\$138
CRE	35	40	75	(20)	28	8
Commercial construction	(25)	35	10	40	14	54
Residential mortgages - guaranteed	—	1	1	(1)	(3)	(4)
Residential mortgages - nonguaranteed	39	16	55	32	7	39
Residential home equity products	(53)	61	8	(54)	40	(14)
Residential construction	(6)	1	(5)	(2)	—	(2)
Consumer student - guaranteed	18	38	56	39	23	62
Consumer other direct	67	42	109	66	27	93
Consumer indirect	15	38	53	27	9	36
Consumer credit cards	14	21	35	24	1	25
Nonaccrual	(1)	(12)	(13)	(3)	14	11
Securities AFS: ²						
Taxable	22	65	87	60	53	113
Tax-exempt	6	—	6	7	—	7
Fed funds sold and securities borrowed or purchased under agreements to resell	2	14	16	—	8	8
LHFS	(19)	21	2	(3)	10	7
Interest earning trading assets	(9)	41	32	(6)	31	25
Other earning assets ²	(1)	3	2	—	3	3
Total increase in interest income	78	740	818	206	403	609
Increase/(Decrease) in Interest Expense:						
NOW accounts	4	106	110	5	71	76
Money market accounts	(11)	122	111	—	50	50
Savings	—	—	—	—	(1)	(1)
Consumer time	6	16	22	(2)	1	(1)
Other time	38	25	63	13	5	18
Brokered time deposits	1	2	3	—	—	—
Foreign deposits	(4)	2	(2)	2	1	3
Funds purchased	2	12	14	1	8	9
Securities sold under agreements to repurchase	1	15	16	—	8	8
Interest-bearing trading liabilities	9	5	14	(2)	4	2
Other short-term borrowings	4	22	26	1	4	5
Long-term debt	38	49	87	8	20	28
Total increase in interest expense	88	376	464	26	171	197
(Decrease)/Increase in Net Interest Income	(\$10)	\$364	\$354	\$180	\$232	\$412

Increase in Net Interest Income-FTE ³

\$297

\$419

¹ Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate, while rate change is change in rate times the previous volume. The rate/volume change, change in rate times change in volume, is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

² Beginning January 1, 2018, we began presenting equity securities previously presented in securities available for sale (taxable) as other earning assets. Prior periods have been revised to conform to the current presentation for comparability.

³ See Table 29, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information and reconciliations of net interest income-FTE.

NET INTEREST INCOME/MARGIN (FTE)

Net interest income was \$6.1 billion in 2018, an increase of \$297 million, or 5%, compared to 2017. Net interest margin for 2018 increased 12 basis points, to 3.26%, compared to 2017. The increase was driven by a 40 basis point increase in average earning asset yields as a result of higher benchmark interest rates, favorable mix shift, and lower premium amortization expense. Specifically, average LHFI yields increased 43 basis points, driven by broad-based increases in yields across most loan categories, while yields on securities AFS increased 22 basis points. These increases were offset partially by higher funding costs.

Rates paid on average interest-bearing liabilities increased 33 basis points compared to 2017, driven by increases in rates paid across all interest-bearing liability categories. The rate paid on interest-bearing deposits increased 26 basis points.

Looking to the first quarter of 2019, we expect net interest margin to be generally stable compared to the fourth quarter of 2018; thereafter, net interest margin trends will depend on the interest rate environment, future levels of loan growth, and funding costs.

Average earning assets increased \$1.9 billion, or 1%, compared to 2017, driven primarily by a \$1.5 billion, or 1%, increase in average LHFI and a \$1.1 billion, or 4%, increase in average securities AFS, offset partially by a \$433 million, or 17%, decrease in average LHFS and a \$377 million, or 7%, decrease in average interest earning trading assets. See the “Loans” section in this MD&A for additional discussion regarding loan activity.

Average interest-bearing liabilities increased \$3.7 billion, or 3%, compared to 2017, due primarily to increases across most consumer and commercial deposit categories as well as average long-term debt, offset largely by declines in money market accounts and foreign deposits. Average interest-bearing consumer and commercial deposits increased \$1.3 billion, or 1%, due primarily to growth in average time deposits and NOW accounts in response to our targeted focus on CDs. The continued movement from lower cost deposits to CDs allows us to retain our existing depositors and capture new market share, while also managing our asset sensitivity profile, and we expect this trend to continue as interest rates rise.

Average long-term debt increased \$1.4 billion, or 13%, compared to 2017, due primarily to loan growth exceeding deposit growth. See the “Borrowings” section of this MD&A for additional information regarding our short-term borrowings and long-term debt.

We utilize interest rate swaps to manage interest rate risk. These instruments are primarily receive-fixed, pay-variable swaps that synthetically convert a portion of our commercial loan portfolio from floating rates, based on LIBOR, to fixed rates. At December 31, 2018, the outstanding notional balance of active swaps that qualified as cash flow hedges on variable rate commercial loans was \$10.3 billion, compared to \$12.1 billion at December 31, 2017, respectively. In addition to the income recognized from active swaps, we recognize interest income or expense from terminated swaps that were previously designated as cash flow hedges on variable rate commercial loans. Interest expense from our commercial loan swaps was \$72 million in 2018, compared to interest income of \$89 million in 2017 due primarily to an increase in LIBOR. As we manage our interest rate risk we may continue to purchase additional and/or terminate existing interest rate swaps.

Remaining swaps on commercial loans have maturities through 2023 and have an average maturity of 2.5 years at December 31, 2018. The weighted average rate on the receive-fixed rate leg of the commercial loan swap portfolio was 1.72%, and the weighted average rate on the pay-variable leg was 2.50%, at December 31, 2018.

Foregone Interest

Foregone interest income from NPLs reduced net interest margin by two basis points and less than one basis point for the years ended December 31, 2018 and 2017, respectively. See additional discussion regarding our credit quality in the “Loans,” “Allowance for Credit Losses,” and “Nonperforming Assets” sections of this MD&A. In addition, Table 1 and Table 2 in this MD&A contain more detailed information regarding average balances, yields earned, rates paid, and associated impacts on net interest income.

NONINTEREST INCOME

Components of Noninterest Income	Table 3		
	Year Ended December 31		
(Dollars in millions)	2018	2017	2016
Service charges on deposit accounts	\$579	\$603	\$630
Other charges and fees ¹	356	361	359
Card fees	324	344	327
Investment banking income ¹	599	623	515
Trading income	161	189	211
Mortgage related income ²	342	422	555
Trust and investment management income	304	309	304
Retail investment services	292	278	281
Commercial real estate related income	134	123	69
Net securities gains/(losses)	1	(108)	4
Gain on sale of subsidiary	—	107	—
Other noninterest income	134	103	128
Total noninterest income	\$3,226	\$3,354	\$3,383

¹ Beginning July 1, 2018, we began presenting bridge commitment fee income related to capital market transactions in Investment banking income on the Consolidated Statements of Income. For periods prior to July 1, 2018, this income was previously presented in Other charges and fees and has been reclassified to Investment banking income for comparability. Capital market bridge fee income totaled \$14 million, \$24 million, and \$21 million for the years ended December 31, 2018, 2017, and 2016, respectively.

² Beginning with this Form 10-K, we began presenting Mortgage production related income and Mortgage servicing related income as a single line item on the Consolidated Statements of Income titled Mortgage related income. Prior periods have been conformed to this updated presentation for comparability.

Noninterest income decreased \$128 million, or 4%, compared to 2017, driven primarily by lower mortgage and capital markets-related income as well as lower client transaction-related fees, offset partially by increases in other noninterest income, commercial real estate related income, and wealth management-related income.

Client transaction-related fee income, which includes service charges on deposit accounts, other charges and fees, and card fees, decreased \$49 million, or 4%, compared to 2017, driven primarily by the impact of our January 1, 2018 adoption of the revenue recognition accounting standard, which resulted in the netting of certain expense items against this income, as well as by a change in our process for recognizing card rewards expenses in the third quarter of 2018. The revenue recognition accounting standard decreased client transaction-related fee income by \$38 million for the year ended December 31, 2018. See Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-K for additional information regarding our adoption of this accounting standard.

Investment banking income decreased \$24 million, or 4%, compared to 2017. This decrease was due primarily to decreased activity in loan syndications, leveraged finance, and investment grade bond originations. These decreases were offset partially by strong deal flow activity in mergers and acquisitions and equity offerings, as well as by our adoption of the revenue recognition accounting standard, which increased investment banking income by \$13 million for the year ended December 31, 2018.

Trading income decreased \$28 million, or 15%, compared to 2017. This decrease was due primarily to lower fixed income sales and trading revenue.

Mortgage related income decreased \$80 million, or 19%, compared to 2017 driven by a \$77 million, or 33%, decrease in mortgage production related income. The decrease in mortgage production related income was driven primarily by lower gain on sale margins, reduced refinance activity, and less favorable channel mix, offset partially by a repurchase reserve release during the fourth quarter of 2018. Mortgage application and closed loan volume both decreased 8% compared to 2017. The UPB of mortgage loans in the servicing portfolio was \$171.4 billion at December 31, 2018, compared to \$165.5 billion at December 31, 2017.

Retail investment services income increased \$14 million, or 5%, compared to 2017, driven primarily by growth in assets under management.

Commercial real estate related income increased \$11 million, or 9%, compared to 2017. This increase was due primarily to increased structured real estate revenue and higher tax credit-related income from our investments in affordable housing partnerships, offset partially by a decline in transactional activity in our agency lending business. Net securities gains totaled \$1 million compared to net securities losses of \$108 million in 2017. Net securities losses for 2017 were driven by \$109 million of securities AFS portfolio restructuring losses.

Gain on sale of subsidiaries totaled \$107 million for 2017, resulting from our gain from the sale of PAC during the fourth quarter of 2017. See Note 3, "Acquisitions/Dispositions," to the Consolidated Financial Statements in this Form 10-K for additional information regarding the sale of PAC.

Other noninterest income increased \$31 million, or 30%, compared to 2017. This increase was due primarily to \$30 million of remeasurement gains on an equity investment following our full adoption of the recognition and measurement of financial

assets accounting standard on January 1, 2018, as well as mark-to-market gains on our CDS hedge portfolio. See Note 1, "Significant Accounting Policies," to the Consolidated Financial

Statements in this Form 10-K for additional information regarding our adoption of this accounting standard.

NONINTEREST EXPENSE

Components of Noninterest Expense	Table 4		
	Year Ended December 31		
(Dollars in millions)	2018	2017	2016
Employee compensation	\$2,878	\$2,854	\$2,698
Employee benefits	430	403	373
Total personnel expenses	3,308	3,257	3,071
Outside processing and software	909	826	834
Net occupancy expense	372	377	349
Marketing and customer development	175	232	172
Equipment expense	166	164	170
Regulatory assessments	126	187	173
Operating losses	79	40	108
Amortization	73	75	49
Consulting and legal fees	62	71	93
Other staff expense	52	121	67
Other noninterest expense	351	414	382
Total noninterest expense	\$5,673	\$5,764	\$5,468

Noninterest expense decreased \$91 million, or 2%, compared to 2017, driven primarily by the \$111 million of net Form 8-K and tax reform-related items recognized during the fourth quarter of 2017, offset partially by higher outside processing and software expense, personnel expenses, and increased operating losses.

Personnel expenses increased \$51 million, or 2%, compared to 2017. This increase was due primarily to the \$60 million pre-tax NCF Retirement Plan settlement charge recognized in the fourth quarter of 2018. Looking to the first quarter of 2019, we expect core personnel expenses—which excludes the fourth quarter of 2018 NCF Retirement Plan settlement charge of \$60 million—to increase by approximately \$60 million to \$75 million from the fourth quarter of 2018 due primarily to seasonal increases in 401(k) and FICA expenses.

Outside processing and software expense increased \$83 million, or 10%, compared to 2017, driven primarily by higher software-related costs resulting from the implementation and amortization of new and upgraded technology assets.

Net occupancy expense decreased \$5 million, or 1%, compared to 2017, driven by lease termination gains recognized in the second and third quarters of 2018. Separately, we adopted ASC Topic 842, *Leases*, on January 1, 2019, which resulted in the remaining deferred gain on sale-leaseback transactions being recognized in retained earnings through a cumulative effect adjustment. Accordingly, this line item will no longer include amortization of deferred gains subsequent to 2018. Amortization of deferred gains on sale-leaseback transactions recognized in

Net occupancy expense for the years ended December 31, 2018, 2017, and 2016 totaled \$6 million, \$17 million, and \$43 million, respectively. See Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-K for additional information.

Marketing and customer development expense decreased \$57 million, or 25%, compared to 2017, driven primarily by the \$50 million tax reform-related charitable contribution in the fourth quarter of 2017 to support financial well-being initiatives.

Regulatory assessments expense decreased \$61 million, or 33%, compared to 2017, driven by lower FDIC insurance premiums, cessation of the FDIC surcharge, and a \$9 million regulatory assessment credit in the fourth quarter of 2018.

Operating losses increased \$39 million, or 98%, compared to 2017, due primarily to the favorable resolution of several legal matters in 2017.

Consulting and legal fees decreased \$9 million, or 13%, compared to 2017, due to the resolution of prior legal matters. Other staff expense decreased \$69 million, or 57%, compared to 2017, driven primarily by higher severance costs recognized during 2017, largely in connection with the voluntary early retirement program announced in our December 4, 2017 Form 8-K (as part of our net charge related to efficiency actions).

Other noninterest expense decreased \$63 million, or 15%, compared to 2017, driven primarily by lower branch and corporate real estate closure costs and lower software writedowns in 2018.

PROVISION FOR INCOME TAXES

The provision for income taxes includes federal and state income taxes and interest. For the year ended December 31, 2018, the provision for income taxes was \$548 million, representing an effective tax rate of 16%. For the year ended December 31, 2017, the provision for income taxes was \$532 million, representing an effective tax rate of 19%. The decrease in the effective tax rate was due primarily to the reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, as a result of the enactment of the 2017 Tax Act.

We recorded an income tax benefit for the remeasurement of our December 31, 2017 DTAs and DTLs and other tax reform-related items of \$55 million and \$303 million for the years ended December 31, 2018 and 2017, respectively. This \$55 million adjustment completed our accounting for the income tax effects of the 2017 Tax Act.

See Note 16, "Income Taxes," to the Consolidated Financial Statements in this Form 10-K for further information related to the provision for income taxes.

LOANS

Our disclosures about the credit quality of our loan portfolio and the related credit reserves (i) describe the nature of credit risk inherent in the loan portfolio, (ii) provide information on how we analyze and assess credit risk in arriving at an adequate and appropriate ALLL, and (iii) explain changes in the ALLL as well as reasons for those changes.

Our loan portfolio consists of two loan segments: Commercial loans and Consumer loans. Loans are assigned to these segments based on the type of borrower, purpose, and/or our underlying credit management processes. Additionally, we further disaggregate each loan segment into loan types based on common characteristics within each loan segment.

Commercial Loans

C&I loans include loans to fund business operations or activities, loans secured by owner-occupied properties, corporate credit cards, and other wholesale lending activities. Commercial loans secured by owner-occupied properties are classified as C&I loans because the primary source of loan repayment for these properties is business income and not real estate operations. CRE and Commercial construction loans include investor loans where repayment is largely dependent upon the operation, refinance, or sale of the underlying real estate.

Consumer Loans

Residential mortgages, both guaranteed (by a federal agency or GSE) and nonguaranteed, consist of loans secured by 1-4 family homes; mostly prime, first-lien loans. Residential home equity products consist of equity lines of credit and closed-end equity loans secured by residential real estate that may be in either a first lien or junior lien position.

Residential construction loans include residential real estate secured owner-occupied construction-to-perm loans and lot loans.

Consumer loans also include Guaranteed student loans, Indirect loans (consisting of loans secured by automobiles, boats, and recreational vehicles), Other direct loans (consisting primarily of unsecured loans, direct auto loans, loans secured by negotiable collateral, and private student loans), and Credit cards.

The composition of our loan portfolio is presented in Table 5:

	Table 5				
	Loan Portfolio by Types of Loans				
	At December 31				
(Dollars in millions)	2018	2017	2016	2015	2014
Commercial loans:					
C&I ¹	\$71,137	\$66,356	\$69,213	\$67,062	\$65,440
CRE	7,265	5,317	4,996	6,236	6,741
Commercial construction	2,538	3,804	4,015	1,954	1,211
Total commercial LHFI	80,940	75,477	78,224	75,252	73,392
Consumer loans:					
Residential mortgages - guaranteed	459	560	537	629	632
Residential mortgages - nonguaranteed ²	28,836	27,136	26,137	24,744	23,443
Residential home equity products	9,468	10,626	11,912	13,171	14,264
Residential construction	184	298	404	384	436
Guaranteed student	7,229	6,633	6,167	4,922	4,827
Other direct	10,615	8,729	7,771	6,127	4,573
Indirect	12,419	12,140	10,736	10,127	10,644
Credit cards	1,689	1,582	1,410	1,086	901
Total consumer LHFI	70,899	67,704	65,074	61,190	59,720
LHFI	\$151,839	\$143,181	\$143,298	\$136,442	\$133,112
LHFS ³	\$1,468	\$2,290	\$4,169	\$1,838	\$3,232

¹ Includes \$4.1 billion, \$3.7 billion, \$3.7 billion, \$3.9 billion, and \$4.6 billion of lease financing and \$796 million, \$778 million, \$729 million, \$672 million, and \$687 million of installment loans at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

² Includes \$163 million, \$196 million, \$222 million, \$257 million, and \$272 million of LHFI measured at fair value at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

³ Includes \$1.2 billion, \$1.6 billion, \$3.5 billion, \$1.5 billion, and \$1.9 billion of LHFS measured at fair value at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

Table 6 presents our outstanding commercial LHFI by industry:

	Table 6			
	December 31, 2018		December 31, 2017	
(Dollars in millions)	Commercial LHFI	ab Total Commercial	Commercial LHFI	of Total Commercial
	\$	%	\$	%
Real estate	\$13,614	17	\$12,905	17
Consumer products and services	10,222	13	9,303	12
Health care & pharmaceuticals	8,207	10	8,058	11
Automotive	8,185	10	7,444	10
Diversified financials and insurance	8,118	10	7,227	10
Diversified commercial services and supplies	4,772	6	3,837	5
Retail	3,614	4	3,383	4
Capital goods	3,485	4	3,075	4
Government	3,370	4	3,438	5
Media & telecommunication services	3,127	4	2,979	4
Energy	2,610	3	2,176	3
Technology (hardware & software)	2,339	3	2,371	3
Transportation	2,174	3	1,795	2
Materials	2,069	3	2,044	3
Utilities	2,022	2	2,030	3

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Not-for-profits/religious organizations	1,977	2		1,914	3	
Other	1,035	1		1,498	2	
Total commercial loans	\$80,940	100	%	\$75,477	100	%

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Table 7 presents maturities and sensitivities of certain LHFI to changes in interest rates:

Select LHFI Maturity and Sensitivity Information **Table 7**

At December 31, 2018

(Dollars in millions)	Total	Due		
		Due in 1 Year or Less	After 1 Year through 5 Years	After 5 Years
Loan Maturity				
C&I and CRE ¹	\$73,547	\$27,239	\$42,087	\$4,221
Commercial construction	2,538	1,049	1,473	16
Total	\$76,085	\$28,288	\$43,560	\$4,237

Interest Rate Sensitivity

Selected loans with:

Predetermined interest rates	\$4,180	\$2,213
Floating or adjustable interest rates	39,380	2,024
Total	\$43,560	\$4,237

¹ Excludes \$4.1 billion of lease financing and \$796 million of installment loans.

Table 8 presents our LHFI portfolio by geography (based on the U.S. Census Bureau's classifications of U.S. regions):

LHFI Portfolio by Geography **Table 8**

(Dollars in millions)	December 31, 2018					
	Commercial LHFI		Consumer LHFI		Total LHFI	
	Balance	% of Total Commercial	Balance	% of Total Consumer	Balance	% of Total LHFI
South region:						
Florida	\$13,442	17 %	\$13,358	19 %	\$26,800	18 %
Georgia	10,689	13	8,519	12	19,208	13
Virginia	6,481	8	7,529	11	14,010	9
Maryland	4,591	6	6,236	9	10,827	7
North Carolina	4,418	5	5,424	8	9,842	6
Texas	4,420	5	4,782	7	9,202	6
Tennessee	4,244	5	2,962	4	7,206	5
South Carolina	1,522	2	2,418	3	3,940	3
District of Columbia	1,746	2	1,094	2	2,840	2
Other Southern states	2,325	3	2,619	4	4,944	3
Total South region	53,878	67	54,941	77	108,819	72
Northeast region:						
New York	5,033	6	1,278	2	6,311	4
Pennsylvania	1,942	2	1,312	2	3,254	2
New Jersey	1,426	2	755	1	2,181	1
Other Northeastern states	2,844	4	985	1	3,829	3
Total Northeast region	11,245	14	4,330	6	15,575	10
West region:						
California	5,299	7	3,653	5	8,952	6
Other Western states	2,705	3	2,813	4	5,518	4
Total West region	8,004	10	6,466	9	14,470	10

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Midwest region:

Illinois	1,947	2		1,131	2		3,078	2	
Ohio	985	1		795	1		1,780	1	
Missouri	979	1		491	1		1,470	1	
Other Midwestern states	2,183	3		2,663	4		4,846	3	
Total Midwest region	6,094	8		5,080	7		11,174	7	
Foreign loans	1,719	2		82	—		1,801	1	
Total	\$80,940	100	%	\$70,899	100	%	\$151,839	100	%

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LHFI Portfolio by Geography (continued)

(Dollars in millions)	December 31, 2017					
	Commercial LHFI		Consumer LHFI		Total LHFI	
	Balance	% of Total Commercial	Balance	% of Total Consumer	Balance	% of Total LHFI
South region:						
Florida	\$12,792	17 %	\$13,474	20 %	\$26,266	18 %
Georgia	10,250	14	8,462	12	18,712	13
Virginia	6,580	9	7,545	11	14,125	10
Maryland	4,104	5	6,095	9	10,199	7
North Carolina	4,482	6	5,354	8	9,836	7
Texas	3,954	5	4,122	6	8,076	6
Tennessee	4,101	5	2,985	4	7,086	5
South Carolina	1,155	2	2,385	4	3,540	2
District of Columbia	1,501	2	1,022	2	2,523	2
Other Southern states	2,791	4	2,452	4	5,243	4
Total South region	51,710	69	53,896	80	105,606	74
Northeast region:						
New York	4,731	6	1,139	2	5,870	4
Pennsylvania	1,458	2	1,189	2	2,647	2
New Jersey	1,327	2	689	1	2,016	1
Other Northeastern states	2,387	3	895	1	3,282	2
Total Northeast region	9,903	13	3,912	6	13,815	10
West region:						
California	4,893	6	3,246	5	8,139	6
Other Western states	2,172	3	2,235	3	4,407	3
Total West region	7,065	9	5,481	8	12,546	9
Midwest region:						
Illinois	1,637	2	922	1	2,559	2
Ohio	718	1	688	1	1,406	1
Missouri	922	1	395	1	1,317	1
Other Midwestern states	2,211	3	2,336	3	4,547	3
Total Midwest region	5,488	7	4,341	6	9,829	7
Foreign loans	1,311	2	74	—	1,385	1
Total	\$75,477	100 %	\$67,704	100 %	\$143,181	100 %

Loans Held for Investment

LHFI totaled \$151.8 billion at December 31, 2018, an increase of \$8.7 billion from December 31, 2017, driven largely by increases in C&I, CRE, consumer direct, nonguaranteed residential mortgages, guaranteed student, and consumer indirect loans, offset partially by decreases in commercial construction loans and residential home equity products. Average LHFI for 2018 totaled \$145.7 billion, up \$1.5 billion, or 1%, compared to 2017, driven primarily by increases in consumer direct, nonguaranteed residential mortgages, CRE, guaranteed student, and consumer indirect loans. These increases were offset partially by declines in average home equity products, C&I, and commercial construction loans. See Table 1 and the "Net Interest Income/Margin" section in this MD&A for more detailed information regarding average LHFI balances, yields earned, and associated impacts on net interest income. Commercial loans increased \$5.5 billion, or 7%, during 2018, driven by a \$4.8 billion, or 7%, increase in C&I loans resulting from growth in a number of industry verticals and client segments. CRE loans also increased \$1.9 billion, or 37%, driven by increased production across a diverse array of property types as a result of investments we have made in new lending

capabilities. These increases were offset partially by a \$1.3 billion, or 33%, decrease in commercial construction loans due primarily to payoffs and paydowns.

Consumer loans increased \$3.2 billion, or 5%, during 2018, driven by a \$1.9 billion, or 22%, increase in other direct, a \$1.7 billion, or 6%, increase in nonguaranteed residential mortgages, a \$596 million, or 9%, increase in guaranteed student loans, and a \$279 million, or 2%, increase in indirect loans. These increases were offset partially by a \$1.2 billion, or 11%, decrease in residential home equity products.

At December 31, 2018, 40% of our residential home equity product balance was in a first lien position and 60% was in a junior lien position. For residential home equity products in a junior lien position at December 31, 2018, we own or service 32% of the balance of loans that are senior to the home equity product.

Loans Held for Sale

LHFS decreased \$822 million, or 36%, during 2018, due primarily to loan sales exceeding mortgage production.

Asset Quality

Our asset quality metrics were strong during 2018, evidenced by our low net charge-offs to total average LHFH ratio and low NPLs to period-end LHFH ratio. These low levels reflect the relative strength across our LHFH portfolio, particularly in C&I, CRE, residential mortgages, and home equity products, though we recognize that there could be normalization and variability moving forward. See the “Allowance for Credit Losses” and “Nonperforming Assets” sections of this MD&A for detailed information regarding our net charge-offs and NPLs.

NPAs decreased \$152 million, or 21%, during 2018, driven by charge-offs, paydowns, and the return to accrual status of certain C&I NPLs and nonperforming home equity products. At December 31, 2018 and December 31, 2017, the ratio of NPLs to period-end LHFH was 0.35% and 0.47%, respectively.

Early stage delinquencies were 0.73% and 0.80% of total loans at December 31, 2018 and December 31, 2017,

respectively. Early stage delinquencies, excluding government-guaranteed loans, were 0.27% and 0.32% at December 31, 2018 and December 31, 2017, respectively. The reductions in early stage delinquencies resulted primarily from improvements in consumer loans.

For 2018 and 2017, net charge-offs totaled \$338 million and \$367 million, and the net charge-offs to total average LHFH ratio was 0.23% and 0.25%, respectively. The decline in net charge-offs compared to 2017 was driven primarily by overall asset quality improvements and lower commercial net charge-offs.

Looking to 2019, we expect to operate within a net charge-offs to total average LHFH ratio of between 25 and 30 basis points. Additionally, we expect the ALLL to period-end LHFH ratio to generally stabilize, which would result in a provision for loan losses that modestly exceeds net charge-offs, given loan growth.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses consists of the ALLL and the reserve for unfunded commitments. A rollforward of our allowance for credit losses and summarized credit loss experience is shown in Table 9. See Note 1, "Significant Accounting Policies," and Note 8, "Allowance for Credit

Losses," to the Consolidated Financial Statements in this Form 10-K as well as the "Critical Accounting Policies" section of this MD&A for further information regarding our ALLL accounting policy, determination, and allocation.

Summary of Credit Losses Experience**Table
9**

(Dollars in millions)	Year Ended December 31					
	2018	2017	2016	2015	2014	
Allowance for Credit Losses						
Balance - beginning of period	\$1,814	\$1,776	\$1,815	\$1,991	\$2,094	
(Benefit)/provision for unfunded commitments	(10)	12	4	9	4	
Provision for loan losses:						
Commercial LHFI	86	108	329	133	111	
Consumer LHFI	132	289	111	23	227	
Total provision for loan losses	218	397	440	156	338	
Charge-offs:						
Commercial LHFI	(131)	(167)	(287)	(117)	(128)	
Consumer LHFI	(322)	(324)	(304)	(353)	(479)	
Total charge-offs	(453)	(491)	(591)	(470)	(607)	
Recoveries:						
Commercial LHFI	24	40	35	45	57	
Consumer LHFI	91	84	73	84	105	
Total recoveries	115	124	108	129	162	
Net charge-offs	(338)	(367)	(483)	(341)	(445)	
Other ¹	—	(4)	—	—	—	
Balance - end of period	\$1,684	\$1,814	\$1,776	\$1,815	\$1,991	
Components:						
ALLL	\$1,615	\$1,735	\$1,709	\$1,752	\$1,937	
Unfunded commitments reserve ²	69	79	67	63	54	
Allowance for credit losses	\$1,684	\$1,814	\$1,776	\$1,815	\$1,991	
Average LHFI	\$145,714	\$144,216	\$141,118	\$133,558	\$130,874	
Period-end LHFI outstanding	151,839	143,181	143,298	136,442	133,112	
Ratios:						
ALLL to period-end LHFI ³	1.06	% 1.21	% 1.19	% 1.29	% 1.46	%
ALLL to NPLs ⁴	3.10x	2.59x	2.03x	2.62x	3.07x	
Net charge-offs to total average LHFI	0.23	% 0.25	% 0.34	% 0.26	% 0.34	%

¹ Related to loans disposed in connection with the sale of PAC. For additional information regarding the sale of PAC, see Note 3, "Acquisitions/Dispositions" to the Consolidated Financial Statements in this Form 10-K.

² The unfunded commitments reserve is recorded in Other liabilities in the Consolidated Balance Sheets.

³ \$163 million, \$196 million, \$222 million, \$257 million, and \$272 million of LHFI measured at fair value at December 31, 2018, 2017, 2016, 2015, and 2014, respectively, were excluded from period-end LHFI in the calculation, as no allowance is recorded for loans measured at fair value. We believe that this presentation more appropriately reflects the relationship between the ALLL and loans that attract an allowance.

⁴ \$5 million, \$4 million, \$3 million, \$3 million, and \$3 million of NPLs measured at fair value at December 31, 2018, 2017, 2016, 2015, and 2014, respectively, were excluded from NPLs in the calculation, as no allowance is recorded for NPLs measured at fair value. We believe that this presentation more appropriately reflects the relationship between the ALLL and NPLs that attract an allowance.

Provision for Credit Losses

The total provision for credit losses includes the provision for loan losses and the (benefit)/provision for unfunded commitments. The provision for loan losses is the result of a detailed analysis performed to estimate an appropriate and adequate ALLL. For 2018, the total provision for loan losses decreased \$179 million compared to 2017, driven primarily by lower hurricane-related reserves and net charge-offs as well as improved economic and credit conditions resulting in a lower ALLL.

Our quarterly review processes to determine the level of reserves and provision are informed by trends in our LHFI

portfolio (including historical loss experience, expected loss calculations, delinquencies, performing status, size and composition of the loan portfolio, and concentrations within the portfolio) combined with a view on economic conditions. In addition to internal credit quality metrics, the ALLL estimate is impacted by other indicators of credit risk associated with the portfolio, such as geopolitical and economic risks, and the increasing availability of credit and resultant higher levels of leverage for consumers and commercial borrowers.

Allowance for Loan and Lease Losses**ALLL by Loan****Table
10****Segment****At December 31**

(Dollars in millions) **2018** 2017 2016 2015 2014

ALLL:

Commercial LHFI	\$1,080	\$1,101	\$1,124	\$1,047	\$986
Consumer LHFI	535	634	585	705	951
Total	\$1,615	\$1,735	\$1,709	\$1,752	\$1,937

Segment ALLL as a % of total**ALLL:**

Commercial LHFI	67	% 63	% 66	% 60	% 51	%
Consumer LHFI	33	37	34	40	49	
Total	100	% 100	% 100	% 100	% 100	%

Segment LHFI as a % of total LHFI:

Commercial LHFI	53	% 53	% 55	% 55	% 55	%
Consumer LHFI	47	47	45	45	45	
Total	100	% 100	% 100	% 100	% 100	%

The ALLL decreased \$120 million, or 7%, from December 31, 2017, to \$1.6 billion at December 31, 2018. The decrease was due primarily to a reduction in the amount of reserves held for hurricane-related losses and improved economic and credit conditions, offset partially by loan growth. The ALLL to period-end LHFI ratio (excluding loans measured at fair value)

decreased basis points from December 31, 2017, to 1.06% at December 31, 2018. The ratio of the ALLL to NPLs (excluding NPLs measured at fair value) increased to 3.10x at December 31, 2018, compared to 2.59x at December 31, 2017, due to a decrease in NPLs, offset partially by a decrease in the ALLL.

NONPERFORMING ASSETS

	Table 11				
	At December 31				
(Dollars in millions)	2018	2017	2016	2015	2014
NPAs:					
Commercial NPLs:					
C&I	\$157	\$215	\$390	\$308	\$151
CRE	2	24	7	11	21
Commercial construction	—	1	17	—	1
Total commercial NPLs	159	240	414	319	173
Consumer NPLs:					
Residential mortgages - nonguaranteed	204	206	177	183	254
Residential home equity products	138	203	235	145	174
Residential construction	11	11	12	16	27
Other direct	7	7	6	6	6
Indirect	7	7	1	3	—
Total consumer NPLs	367	434	431	353	461
Total nonaccrual loans/NPLs ¹	\$526	\$674	\$845	\$672	\$634
OREO ²	\$54	\$57	\$60	\$56	\$99
Other repossessed assets	9	10	14	7	9
Nonperforming LHFS	—	—	—	—	38
Total NPAs	\$589	\$741	\$919	\$735	\$780
Accruing LHFI past due 90 days or more	\$1,652	\$1,405	\$1,288	\$981	\$1,057
Accruing LHFS past due 90 days or more	1	2	1	—	1
TDRs:					
Accruing restructured loans	\$2,339	\$2,468	\$2,535	\$2,603	\$2,592
Nonaccruing restructured loans ¹	291	286	306	176	273
Ratios:					
NPLs to period-end LHFI	0.35	% 0.47	% 0.59	% 0.49	% 0.48
NPAs to period-end LHFI, OREO, other repossessed assets, and nonperforming LHFS	0.39	0.52	0.64	0.54	0.59

¹ Nonaccruing restructured loans are included in total nonaccrual loans/NPLs.

² Does not include foreclosed real estate related to loans insured by the FHA or guaranteed by the VA. Proceeds due from the FHA and the VA are recorded as a receivable in Other assets in the Consolidated Balance Sheets until the property is conveyed and the funds are received. The receivable related to proceeds due from the FHA and the VA totaled \$50 million, \$45 million, \$50 million, \$52 million, and \$57 million at December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

Problem loans or loans with potential weaknesses, such as nonaccrual loans, loans over 90 days past due and still accruing, and TDR loans, are disclosed in the NPA table above. Loans with known potential credit problems that may not otherwise be disclosed in this table include accruing criticized commercial loans, which are disclosed along with additional credit quality information in Note 7, "Loans," to the Consolidated Financial Statements in this Form 10-K. At December 31, 2018 and December 31, 2017, there were no known significant potential problem loans that are not otherwise disclosed. See the "Critical Accounting Policies" MD&A section of this Form 10-K for additional information regarding our policy on loans classified as nonaccrual.

NPAs decreased \$152 million, or 21%, during 2018. The decrease in NPAs was driven primarily by a decrease in commercial NPLs and the return to accrual status of certain nonperforming home equity products.

Nonperforming Loans

NPLs at December 31, 2018 totaled \$526 million, a decrease of \$148 million, or 22%, from December 31, 2017, driven primarily by decreases in C&I, CRE, and home equity NPLs. The ratio of NPLs to period-end LHFI was 0.35% and 0.47% at December 31, 2018 and December 31, 2017, respectively.

Commercial NPLs decreased \$81 million, or 34%, during 2018 driven by decreases in C&I and CRE NPLs of \$58 million, or 27%, and \$22 million, or 92%, respectively. These decreases were due primarily to charge-offs, paydowns, and the return to accrual status of certain C&I NPLs.

Consumer NPLs decreased \$67 million, or 15%, from December 31, 2017, driven by the return to accrual status of certain home equity products.

Interest income on consumer nonaccrual loans, if received, is recognized on a cash basis. Interest income on commercial nonaccrual loans is not generally recognized until after the principal amount has been reduced to zero.

Interest income

recognized on nonaccrual loans (which includes out-of-period interest for certain commercial nonaccrual loans) totaled \$19 million and \$32 million for 2018 and 2017, respectively. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$45 million and \$43 million would have been recognized during 2018 and 2017, respectively.

Other Nonperforming Assets

OREO decreased \$3 million, or 5%, during 2018 to \$54 million at December 31, 2018. Sales of OREO resulted in proceeds of \$63 million and \$60 million during 2018 and 2017, resulting in net gains of \$9 million and \$10 million, respectively, inclusive of valuation reserves.

Most of our OREO properties are located in Florida, Maryland, Georgia, and South Carolina. Residential and commercial real estate properties comprised 92% and 4%, respectively, of total OREO at December 31, 2018, with the remainder related to land. Upon foreclosure, the values of these properties were re-evaluated and, if necessary, written down to their then-current estimated fair value less estimated costs to sell. Any further decreases in property values could result in additional losses as they are regularly revalued. See the "Non-recurring Fair Value Measurements" section within Note 20, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-K for additional information.

Gains and losses on the sale of OREO are recorded in Other noninterest expense in the Consolidated Statements of Income. Sales of OREO and the related gains or losses are highly dependent on our disposition strategy. We are actively managing and disposing of these assets to minimize future losses and to maintain compliance with regulatory requirements.

Accruing loans past due 90 days or more are included in LHFI and LHFS, and totaled \$1.7 billion and \$1.4 billion at December 31, 2018 and 2017, respectively. Of these, 97% and 98% were government-guaranteed at December 31, 2018 and 2017, respectively. Accruing LHFI past due 90 days or more increased \$247 million, or 18%, during 2018, driven by a \$280 million, or 27%, increase in guaranteed student loans, offset partially by a \$51 million, or 15%, decrease in guaranteed residential mortgages.

Restructured Loans

To maximize the collection of loan balances, we evaluate troubled loans on a case-by-case basis to determine if a loan modification is appropriate. We pursue loan modifications when there is a reasonable chance that an appropriate modification would allow our client to continue servicing the debt. For loans secured by residential real estate, if the client demonstrates a loss of income such that the client cannot reasonably support a modified loan, we may pursue short sales and/or deed-in-lieu arrangements. For loans secured by income producing commercial properties, we perform an in-depth and ongoing programmatic review of a number of factors, including cash flows, loan structures, collateral values, and guarantees to identify loans within our income producing commercial loan portfolio that are most likely to experience distress.

Based on our review of the aforementioned factors and our assessment of overall risk, we evaluate the benefits of proactively initiating discussions with our clients to improve a loan's risk profile. In some cases, we may renegotiate terms of their loans so that they have a higher likelihood of continuing to perform. To date, we have restructured loans in a variety of ways to help our clients service their debt and to mitigate the potential for additional losses. The restructuring methods offered to our clients primarily include an extension of the loan's contractual term and/or a reduction in the loan's original contractual interest rate. In limited circumstances, loan modifications that forgive contractually specified unpaid principal balances may also be offered. For residential home equity lines nearing the end of their draw period and for commercial loans, the primary restructuring method is an extension of the loan's contractual term.

Loans with modifications deemed to be economic concessions resulting from borrower financial difficulties are reported as TDRs. Accruing loans may retain accruing status at the time of restructure and the status is determined by, among other things, the nature of the restructure, the borrower's repayment history, and the borrower's repayment capacity.

Nonaccruing loans that are modified and demonstrate a sustainable history of repayment performance in accordance with their modified terms, typically six months, are usually reclassified to accruing TDR status. Generally, once a loan

becomes a TDR, we expect that the loan will continue to be reported as a TDR for its remaining life, even after returning to accruing status (unless the modified rates and terms at the time of modification were available in the market at the time of the modification, or if the loan is subsequently remodified at market rates). Some restructurings may not ultimately result in the complete collection of principal and interest (as modified by the terms of the restructuring), culminating in default, which could result in additional incremental losses. These potential incremental losses are factored into our ALLL estimate. The level of re-defaults will likely be affected by future economic conditions.

At December 31, 2018, our total TDR portfolio totaled \$2.6 billion and was comprised of \$2.5 billion, or 95%, of consumer loans (predominantly first and second lien residential mortgages and home equity lines of credit) and \$133 million, or 5%, of commercial loans. Total TDRs decreased \$124 million, or 5%, from December 31, 2017, as a \$129 million, or 5%, decrease in accruing TDRs was offset partially by a \$5 million, or 2%, increase in nonaccruing TDRs. Generally, interest income on restructured loans that have met sustained performance criteria and returned to accruing status is recognized according to the terms of the restructuring. Such recognized interest income totaled \$108 million for both 2018 and 2017. If all such loans had been accruing interest according to their original contractual terms, estimated interest income of \$127 million and \$130 million for 2018 and 2017, respectively, would have been recognized.

For additional information regarding our restructured loans and associated accounting policies, see Note 1, "Significant Accounting Policies," and Note 7, "Loans," to the Consolidated Financial Statements in this Form 10-K as well as the "Nonperforming Assets" section of this MD&A.

SELECTED FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following is a discussion of the more significant financial assets and financial liabilities that are measured at fair value on the Consolidated Balance Sheets at December 31, 2018 and 2017. For a complete discussion of our financial instruments measured at fair value and the methodologies used to estimate the fair values of our financial instruments, see Note 20, “Fair Value Election and Measurement,” to the Consolidated Financial Statements in this Form 10-K.

Trading Assets and Liabilities and Derivative Instruments

Trading assets and derivative instruments increased \$413 million, or 8%, compared to December 31, 2017. This increase was due primarily to increases in trading loans, agency MBS, U.S. Treasury securities, CP, and corporate and other debt securities, offset partially by decreases in federal agency securities and derivative instruments. These changes were driven

by normal activity in the trading portfolio product mix as we manage our business and continue to meet our clients' needs. Trading liabilities and derivative instruments increased \$321 million, or 25%, compared to December 31, 2017, driven by increases in U.S. Treasury securities and corporate and other debt securities. For composition and valuation assumptions related to our trading products, as well as additional information on our derivative instruments, see Note 5, “Trading Assets and Liabilities and Derivative Instruments,” Note 19, “Derivative Financial Instruments,” and the “Trading Assets and Derivative Instruments and Investment Securities” section of Note 20, “Fair Value Election and Measurement,” to the Consolidated Financial Statements in this Form 10-K. Also, for a discussion of market risk associated with our trading activities, refer to the “Market Risk Management—Market Risk from Trading Activities” section of this MD&A.

Investment Securities**Investment Securities Portfolio Composition****Table
12**

(Dollars in millions)	December 31, 2018			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Securities AFS:				
U.S. Treasury securities	\$4,277	\$—	\$66	\$4,211
Federal agency securities	221	2	2	221
U.S. states and political subdivisions	606	4	21	589
MBS - agency residential	23,161	128	425	22,864
MBS - agency commercial	2,688	8	69	2,627
MBS - non-agency commercial	943	—	27	916
Corporate and other debt securities	14	—	—	14
Total securities AFS	\$31,910	\$142	\$610	\$31,442

(Dollars in millions)	December 31, 2017 ¹			Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Securities AFS:				
U.S. Treasury securities	\$4,361	\$2	\$32	\$4,331
Federal agency securities	257	3	1	259
U.S. states and political subdivisions	618	7	8	617
MBS - agency residential	22,616	222	134	22,704
MBS - agency commercial	2,121	3	38	2,086
MBS - non-agency residential	55	4	—	59

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MBS - non-agency commercial	862	7	3	866
ABS	6	2	—	8
Corporate and other debt securities	17	—	—	17
Total securities AFS	\$30,913	\$250	\$216	\$30,947

¹ Beginning January 1, 2018, we reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance Sheets. Prior periods have been revised to conform to the current presentation for comparability. See Note 11, "Other Assets," to the Consolidated Financial Statements in this Form 10-K for additional information.

Investment Securities Portfolio Composition (continued)

(Dollars in millions)	December 31, 2016 ¹			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities AFS:				
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 residential	22,379	311	254	22,436
MBS - agency commercial	1,263	2	39	1,226
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
Total securities AFS	\$30,087	\$334	\$391	\$30,030

Beginning January 1, 2018, we reclassified equity securities previously presented in Securities available for sale to Other assets on the Consolidated Balance

¹ Sheets. Prior periods have been revised to conform to the current presentation for comparability. See Note 11, "Other Assets," to the Consolidated Financial Statements in this Form 10-K for additional information.

Maturity Distribution of Investment Securities**Table 13**

(Dollars in millions)	December 31, 2018				
	Due in 1 Year or Less	Due After 1 Year through 5 Years	Due After 5 Years through 10 Years	Due After 10 Years	Total
Amortized Cost ¹:					
Securities AFS:					
U.S. Treasury securities	\$315	\$2,646	\$1,316	\$—	\$4,277
Federal agency securities	112	29	8	72	221
U.S. states and political subdivisions	2	81	15	508	606
MBS - agency residential	1,558	3,684	15,962	1,957	23,161
MBS - agency commercial	1	495	1,885	307	2,688
MBS - non-agency commercial	—	12	931	—	943
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$1,988	\$6,961	\$20,117	\$2,844	\$31,910
Fair Value ¹:					
Securities AFS:					
U.S. Treasury securities	\$312	\$2,603	\$1,296	\$—	\$4,211
Federal agency securities	113	29	8	71	221
U.S. states and political subdivisions	2	84	16	487	589
MBS - agency residential	1,607	3,655	15,682	1,920	22,864
MBS - agency commercial	1	483	1,845	298	2,627
MBS - non-agency commercial	—	12	904	—	916
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$2,035	\$6,880	\$19,751	\$2,776	\$31,442
Weighted average yield ²:					
Securities AFS:					
U.S. Treasury securities	1.64 %	1.93 %	2.31 %	— %	2.03 %
Federal agency securities	5.28	3.37	2.62	2.81	4.14

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U.S. states and political subdivisions	5.17	4.00	4.04	3.27	3.40
MBS - agency residential	3.17	2.43	3.05	3.11	2.97
MBS - agency commercial	—	2.19	2.73	2.89	2.64
MBS - non-agency commercial	—	2.26	3.24	—	3.22
Corporate and other debt securities	—	3.39	—	—	3.39
Total securities AFS	3.05	% 2.25	% 2.98	% 3.11	% 2.84

¹ The amortized cost and fair value of investment securities are presented based on remaining contractual maturity, with the exception of MBS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

² Weighted average yields are based on amortized cost and presented on an FTE basis.

The investment securities portfolio is managed as part of our overall liquidity management and ALM process to optimize income and portfolio value over an entire interest rate cycle while mitigating the associated risks. Changes in the size and composition of the portfolio reflect our efforts to maintain a high quality, liquid portfolio, while managing our interest rate risk profile. The amortized cost of the portfolio increased \$997 million during the year ended December 31, 2018, due primarily to increased holdings of agency commercial and residential MBS as well as non-agency commercial MBS, offset partially by decreased holdings of U.S. Treasury securities, non-agency residential MBS, and federal agency securities. The fair value of the securities AFS portfolio increased \$495 million compared to December 31, 2017, due primarily to the aforementioned increases in securities holdings, offset largely by a \$502 million increase in net unrealized losses associated with increased market interest rates. At December 31, 2018, the overall securities AFS portfolio was in a \$468 million net unrealized loss position, compared to a net unrealized gain position of \$34 million at December 31, 2017. The securities AFS portfolio had an effective duration of 4.6 years at December 31, 2018 compared to 4.5 years at December 31, 2017.

Net realized gains on the sale of securities AFS were immaterial for the year ended December 31, 2018 and the year ended December 31, 2016, while net realized losses on the sale of securities AFS for the year ended December 31, 2017 totaled

\$108 million due to the fourth quarter of 2017 portfolio restructuring. There were no OTTI credit losses recognized in earnings for the year ended December 31, 2018 or the year ended December 31, 2016, and OTTI credit losses for the year ended December 31, 2017 were immaterial. For additional information on our accounting policies, composition, and valuation assumptions related to the securities AFS portfolio, see Note 1, "Significant Accounting Policies," Note 6, "Investment Securities," and the "Trading Assets and Derivative Instruments and Investment Securities" section of Note 20, "Fair Value Election and Measurement," to the Consolidated Financial Statements in this Form 10-K.

For the year ended December 31, 2018, the average yield on the securities AFS portfolio was 2.69%, compared to 2.47% for the year ended December 31, 2017. The increase in average yield was due primarily to higher benchmark interest rates and lower premium amortization. See additional discussion related to average yields on securities AFS in the "Net Interest Income/Margin" section of this MD&A.

The credit quality and liquidity profile of our investment securities portfolio remained strong at December 31, 2018. Over the longer term, the size and composition of the investment securities portfolio will reflect balance sheet trends and our overall liquidity objectives. Accordingly, the size and composition of the investment securities portfolio could change over time.

DEPOSITS

Composition of Average Deposits

Table 14

(Dollars in millions)	Year Ended December 31			% of Total Deposits		
	2018	2017	2016	2018	2017	2016
Noninterest-bearing deposits	\$42,591	\$43,655	\$43,400	26 %	27 %	28 %
Interest-bearing deposits:						
NOW accounts	46,170	45,009	40,949	29	28	26
Money market accounts	50,042	53,592	53,795	31	33	35
Savings	6,647	6,519	6,285	4	4	4
Consumer time	6,332	5,626	5,852	4	4	4
Other time	7,986	5,148	3,908	5	3	2
Total consumer and commercial deposits	159,768	159,549	154,189	99	99	99
Brokered time deposits	1,031	941	926	1	1	1
Foreign deposits	94	421	123	—	—	—
Total deposits	\$160,893	\$160,911	\$155,238	100 %	100 %	100 %

During 2018, we experienced continued deposit growth across most of our product categories as well as a migration from lower-cost deposits to CDs, due largely to higher interest rates. See Table 1, Table 2, and the "Net Interest

Income/Margin” section in this MD&A for additional information regarding average deposit balances, rates paid, and associated impacts on net interest income. See Note 6, “Investment Securities,” to the Consolidated Financial Statements in this Form 10-K for information regarding collateral pledged to secure public deposits.

Average consumer and commercial deposits increased \$219 million in 2018, relatively stable compared to 2017 as growth in time deposits and NOW accounts were offset largely by declines in money market accounts and noninterest-bearing deposits. Average deposits grew in the Consumer business segment, driven by targeted client outreach, improved execution across our branch network, leveraging new pricing capabilities, and a focus on meeting our clients’ deposit needs across all channels. The Wholesale business segment experienced a decline in average deposits driven by outflows into alternative investments, corporate funding, and acquisitions.

Consumer and commercial deposit growth remains one of our key areas of focus. During 2018, we continued to execute on our targeted strategy of retaining our existing depositors and capturing new market share, while managing the rates we paid for deposits. We maintained pricing discipline through a judicious use of competitive rates in select products and markets. Looking forward to 2019, we expect deposit costs to continue

to trend upwards, with the trajectory influenced by the interest rate environment and our loan growth. We remain focused on investing in products and capabilities that enhance the client experience, outside of rate paid.

The aggregate amount outstanding of time deposits in denominations of \$100,000 or more at December 31, 2018, by remaining contractual maturity, is presented in Table 15.

Contractual Maturities of Time Deposits of \$100,000 or More **Table 15**

(Dollars in millions)	Consumer and Other Time	Brokered Time	Total
Remaining Contractual Maturity:			
3 months or less	\$1,095	\$53	\$1,148
Over 3 through 6 months	1,111	45	1,156
Over 6 through 12 months	2,278	70	2,348
Over 12 months	4,288	877	5,165
Total	\$8,772	\$1,045	\$9,817

Refer to the “Contractual Obligations” section of this MD&A and Note 13, “Borrowings and Contractual Commitments,” to the Consolidated Financial Statements in this Form 10-K for additional information regarding time deposit maturities.

BORROWINGS

Short-Term Borrowings **Table 16**

(Dollars in millions)	At December 31	
	2018	2017
Funds purchased	\$2,141	\$2,561
Securities sold under agreements to repurchase	1,774	1,503
Other short-term borrowings:		
FHLB advances	4,000	—
Dealer collateral	503	367
Master notes	354	350
Total other short-term borrowings	4,857	717
Total short-term borrowings	\$8,772	\$4,781

Short-term borrowings include funds purchased, securities sold under agreements to repurchase, and other short-term borrowings. Our short-term borrowings at December 31, 2018 increased \$4.0 billion, or 83%, from December 31, 2017, driven by increases of \$4.0 billion and \$271 million in outstanding FHLB advances and securities sold under agreements to repurchase, respectively, offset partially by a \$420 million decrease in funds purchased.

Long-Term Debt **Table 17**

	At December	
	31	
(Dollars in millions)	2018	2017
Parent Company:		
Senior, fixed rate	\$3,467	\$3,353
Senior, floating rate	51	51
Subordinated, fixed rate	200	200
Junior subordinated, floating rate	627	628
Structured notes ¹	200	242
Total	4,545	4,474
Less: Debt issuance costs	9	8
Total Parent Company debt	4,536	4,466

Subsidiaries ²:

Senior, fixed rate ³	6,238	3,609
Senior, floating rate	1,085	512
Senior, fixed-to-floating rate	2,364	—
Subordinated, fixed rate	864	1,206
Total	10,551	5,327
Less: Debt issuance costs	15	8
Total subsidiaries debt	10,536	5,319
Total long-term debt ⁴	\$15,072	\$9,785

¹ Consists of notes with various terms that include fixed or floating interest, or returns that are linked to an equity index.

² 82% and 77% of total subsidiary debt was issued by the Bank at December 31, 2018 and 2017, respectively.

³ Includes leases and other obligations that do not have a stated interest rate.

⁴ Includes \$289 million and \$530 million of long-term debt measured at fair value at December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, our long-term debt increased by \$5.3 billion, or 54%. This increase was driven by our 2018 debt issuances of \$4.8 billion (summarized in Table 18) as well as by increases of \$1.0 billion and \$530 million in outstanding FHLB advances and direct finance leases, respectively. Partially offsetting these increases were \$750 million and \$314 million of senior note and subordinated note maturities during the year ended December 31, 2018. We may opportunistically repurchase certain of our outstanding debt securities in the future, depending on market conditions.

2018 Debt Issuances	Table 18
Issuance Description	Principal Amount (Dollars in millions)
Parent Company:	
7-year fixed rate senior notes	\$850
Bank:	
3-year fixed-to-floating rate senior notes	750
3-year fixed-to-floating rate senior notes	600
7-year fixed rate senior notes	500
6-year fixed-to-floating rate senior notes	500
5-year fixed rate senior notes	500
4-year fixed-to-floating rate senior notes	500
4-year floating rate senior notes	300
3-year floating rate senior notes	300

CAPITAL RESOURCES

Regulatory Capital

Our primary federal regulator, the Federal Reserve, measures capital adequacy within a framework that sets capital requirements relative to the risk profiles of individual banks. The framework assigns risk weights to assets and off-balance sheet risk exposures according to predefined classifications, creating a base from which to compare capital levels. We measure capital adequacy using the standardized approach to the FRB's Basel III Final Rule. Basel III capital categories are discussed below.

CET1 is limited to common equity and related surplus (net of treasury stock), retained earnings, AOCI, and common equity minority interest, subject to limitations. Certain regulatory adjustments and exclusions are made to CET1, including removal of goodwill, other intangible assets, certain DTAs, and certain defined benefit pension fund net assets. Further, banks not subject to the advanced approaches risk-based capital rules were granted a one-time permanent election to exclude AOCI from the calculation of regulatory capital. We elected to exclude AOCI from the calculation of our CET1.

Tier 1 capital includes CET1, qualified preferred equity instruments, qualifying minority interest not included in CET1, subject to limitations, and certain other regulatory deductions. Tier 2 capital includes qualifying portions of subordinated debt, trust preferred securities and minority interest not included in Tier 1 capital, ALLL up to a maximum of 1.25% of RWA, and a limited percentage of unrealized gains on equity securities. Total capital consists of Tier 1 capital and Tier 2 capital.

To be considered "adequately capitalized," we are subject to minimum CET1, Tier 1 capital, and Total capital ratios of

4.5%, 6%, and 8%, respectively, plus, in 2018, 2017, and 2016, CCB amounts of 1.875%, 1.25%, and 0.625%, respectively, were required to be maintained above the minimum capital ratios. The CCB was fully phased-in at 2.5% above the minimum capital ratios on January 1, 2019. The CCB places restrictions on the amount of retained earnings that may be used for capital distributions or discretionary bonus payments as risk-based capital ratios approach their respective "adequately capitalized" minimum capital ratios plus the CCB. To be considered "well-capitalized," Tier 1 and Total capital ratios of 6% and 10%, respectively, are required.

In April 2018, the FRB issued an NPR that included proposed modifications to minimum regulatory capital requirements as well as proposed changes to assumptions used in the stress testing process. The modifications would replace the 2.5% CCB with a Stress Capital Buffer ("SCB"). The SCB is the greater of (i) the difference between the

actual CET1 ratio and the minimum forecasted CET1 ratio under a severely adverse scenario, based on modeling and projections performed by the Federal Reserve, plus four quarters of planned common stock dividends, or (ii) 2.5%. If finalized, the SCB would be calculated based on the 2019 CCAR process and be incorporated into capital requirements effective as of the fourth quarter of 2019.

We are also subject to a Tier 1 leverage ratio requirement, which measures Tier 1 capital against average total assets less certain deductions, as calculated in accordance with regulatory guidelines. The minimum leverage ratio threshold is 4% and is not subject to the CCB.

A transition period previously applied to certain capital elements and risk weighted assets, where phase-in percentages were applicable in the calculations of capital and RWA. One of the more significant transitions required by the Basel III Final Rule relates to the risk weighting applied to MSRs, which impacted the CET1 ratio during the transition period when compared to the CET1 ratio calculated on a fully phased-in basis. Specifically, the fully phased-in risk weight of MSRs would have been 250%, while the risk weight to be applied during the transition period was 100%. In the third quarter of 2017, the OCC, FRB, and FDIC issued two NPRs in an effort to simplify certain aspects of the capital rules, a Transitions NPR and a Simplifications NPR. The Transitions NPR proposed to extend certain transition provisions in the capital rules for banks with less than \$250 billion in total consolidated assets. The Transitions NPR was finalized in November 2017, resulting in the MSR risk weight of 100% being extended indefinitely. The rule became effective on January 1, 2018. The Simplifications NPR would simplify the capital treatment for certain acquisition, development, and construction loans, mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) was signed into law, which provides certain limited amendments to the Dodd-Frank Act as well as certain targeted modifications to other post-financial crisis regulatory requirements. The federal banking agencies have proposed several rules to implement the EGRRCPA (including the October 2018 NPR discussed below), but these proposed rules are subject to finalization, and additional rulemakings by the federal regulators are expected to be issued.

As a result, we continue to evaluate the impact of the EGRRCPA, but anticipate that certain of its provisions could affect our capital planning and strategy execution. See the “Enhanced Prudential Standards,” “Mandatory Liquidity Coverage Ratio and Net Stable Funding Ratio,” and “Capital Planning and Stress Testing” sections of Part I, Item 1, “Business,” in this Form 10-K for more information on the EGRRCPA.

In September 2018, the OCC, FRB, and FDIC issued an NPR that would revise the definition of high volatility commercial real estate exposure (“HVCRE”) to conform with the statutory definition of a high volatility commercial real estate acquisition, development, or construction loan, in accordance with the Act. The revised definition would exclude any loans made prior to January 1, 2015, and certain other loans currently classified as HVCRE. We are currently evaluating the impact of this NPR on our capital ratios.

In October 2018, the OCC, FRB, and FDIC issued a joint NPR to address the tailoring provided for in the EGRRCPA that would establish four risk-based categories of standards for determining applicability of capital and liquidity requirements for large U.S. banking organizations. The proposal is consistent with a separate NPR issued concurrently by the FRB that would

amend certain prudential standards, including standards relating to liquidity, risk management, stress testing, and single-counterparty credit limits, to reflect the risk profiles of banking organizations.

In February 2019, the FRB announced that certain less-complex BHCs with less than \$250 billion in assets, including the Company, would not be subject to supervisory stress testing, company-run stress testing, or CCAR for 2019. For more information on these NPRs and announcements, see the “Enhanced Prudential Standards,” “Mandatory Liquidity Coverage Ratio and Net Stable Funding Ratio,” and “Capital Planning and Stress Testing” sections of Part I, Item 1, “Business,” in this Form 10-K.

Also in October 2018, the OCC, FRB, and FDIC issued an NPR that introduced a new approach for calculating the exposure amount of derivative contracts for regulatory capital purposes, the standardized approach for counterparty credit risk (“SA-CCR”). If finalized, we could elect to utilize the SA-CCR in place of the current exposure methodology for determining counterparty credit risk exposures, as the SA-CCR would be optional for non-advanced approaches banking institutions.

Table 19 presents the Company's Basel III regulatory capital metrics:

Regulatory Capital Metrics ¹	Table 19		
	December 31, 2018	December 31, 2017	December 31, 2016
(Dollars in millions)			
Regulatory capital:			
CET1	\$17,258	\$17,141	\$16,953
Tier 1 capital	19,306	19,622	18,186
Total capital	22,517	23,028	21,685
Assets:			
RWA	\$187,380	\$175,950	\$176,825
Average total assets for leverage ratio	208,482	200,141	197,272
Risk-based ratios ²:			
CET1	9.21	% 9.74	% 9.59
Tier 1 capital	10.30	11.15	10.28
Total capital	12.02	13.09	12.26
Leverage	9.26	9.80	9.22
Total shareholders' equity to assets	11.26	12.21	11.53

¹ We calculated these measures based on the methodology specified by our primary regulator, which may differ from the calculations used by other financial services companies that present similar metrics.

² Basel III capital ratios are calculated under the standardized approach using regulatory capital methodology applicable to us for each period presented.

Our CET1 ratio decreased compared to December 31, 2017, driven primarily by growth in risk weighted assets and

higher share repurchases, offset partially by an increase in retained earnings. The Tier 1 capital and Total capital ratios declined compared to December 31, 2017, due to the impact of our redemption of all outstanding shares of Series E Preferred Stock in the first quarter of 2018 as well as the aforementioned impacts to our CET1 ratio. Specifically, we used net proceeds from our November 2017 Series H Preferred Stock issuance to redeem all 4,500 shares of our outstanding higher cost Series E Preferred Stock in the first quarter of 2018. At December 31, 2018, our capital ratios were well above current regulatory requirements. See Note 15, "Capital," to the Consolidated Financial Statements

in this Form 10-K for additional information regarding our regulatory capital adequacy requirements and metrics.

Capital Actions

We declared and paid common dividends of \$826 million, or \$1.80 per common share, during the year ended December 31, 2018, compared to \$634 million, or \$1.32 per common share, during the year ended December 31, 2017 and \$498 million, or \$1.00 per common share, during the year ended December 31, 2016. Additionally, we paid dividends on our preferred stock of \$107 million, \$94 million, and \$66 million during the years ended December 31, 2018, 2017, and 2016, respectively.

Various regulations administered by federal and state bank regulatory authorities restrict the Bank's ability to distribute its retained earnings. At December 31, 2018, 2017, and 2016, the Bank's capacity to pay cash dividends to the Parent Company under these regulations totaled approximately \$2.2 billion, \$2.5 billion, and \$2.5 billion, respectively. During the first half of 2018, we repurchased \$660 million of our outstanding common stock at market value, which completed our \$1.32 billion of authorized common equity repurchases approved by the Board in conjunction with the 2017 capital plan.

In June 2018, we announced capital plans in response to the Federal Reserve's review of and non-objection to our 2018 capital plan submitted in conjunction with the 2018 CCAR. Our 2018 capital plan includes increases in our share repurchase program and quarterly common stock dividend, while maintaining our level of preferred stock dividends. Specifically, the 2018 capital plan authorized the repurchase of up to \$2.0 billion of our outstanding common stock to be completed between the third quarter of 2018 and the second quarter of 2019, as well as a 25% increase in our quarterly common stock dividend from \$0.40 per share to \$0.50 per share, beginning in the third quarter of 2018. During the second half of 2018, we repurchased \$1.25 billion of our outstanding common stock at market value as part of this 2018 capital plan. In January 2019, we repurchased an additional \$250 million of our outstanding common stock under the 2018 capital plan pursuant to an SEC Rule 10b5-1 repurchase plan entered into on November 6, 2018, and we do not intend to utilize our remaining share repurchase capacity of \$500 million under the 2018 capital plan. See Item 5 of this Form 10-K for additional information regarding our share repurchase activity, and Note 15, "Capital," to the Consolidated Financial Statements in this Form 10-K for additional information regarding our capital actions.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are integral to understanding our financial performance and are described in detail in Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-K. We have identified certain accounting policies as being critical because (1) they require judgment about matters that are highly uncertain and (2) different estimates that could be reasonably applied would result in materially different outcomes with respect to the recognition and measurement of certain assets, liabilities, commitments, and contingencies, with corresponding impacts on earnings. Our accounting and reporting policies are in accordance with U.S. GAAP, and they conform to general practices within the financial services industry. We have established detailed policies and control procedures that are intended to ensure that these critical accounting estimates are well controlled and applied consistently from period to period, and that the process for changing methodologies occurs in an appropriate manner.

The following is a description of our current critical accounting policies.

Contingencies

We face uncertainty with respect to the outcomes of various contingencies, including the allowance for credit losses and legal and regulatory matters.

Allowance for Credit Losses

The allowance for credit losses is composed of the ALLL and the reserve for unfunded commitments. The ALLL represents our estimate of probable losses inherent in the LHFI portfolio based on current economic conditions. The ALLL is increased by the provision for loan losses and reduced by loan charge-offs, net of recoveries. The ALLL is determined based on our review of certain LHFI that are individually evaluated for impairment and pools of LHFI with similar risk characteristics that are evaluated on a collective basis. Our loss estimate includes an assessment of internal and external influences on credit quality that may not be fully reflected in the historical loss, risk-rating, or other indicative data.

Large commercial nonaccrual loans and certain commercial and consumer loans whose terms have been modified in a TDR, are reviewed to determine the amount of specific allowance required in accordance with applicable accounting guidance. For this purpose, we consider the most probable source of repayment, including the present value of the loan's expected future cash flows, the fair value of the underlying collateral less costs of disposition, or the loan's estimated market value. We use assumptions and methodologies that are relevant to assess the extent of impairment in the portfolio and employ judgment in assigning or estimating internal risk ratings, market and collateral values, discount rates, and loss rates.

General allowances are established for loans and leases grouped into pools that have similar characteristics. The ALLL Committee estimates probable losses by evaluating quantitative and qualitative factors for each loan portfolio segment, including net charge-off trends, internal risk ratings, changes in internal risk ratings, loss forecasts, collateral values, geographic location, delinquency rates, nonperforming and restructured loan status, origination channel, product mix, underwriting practices, industry conditions, and economic trends. In addition to these factors, the consumer and residential portfolio segments consider borrower FICO scores, and the commercial portfolio segment considers single name borrower concentration.

Estimated collateral values are based on appraisals, broker price opinions, automated valuation models, other collateral-specific information, and/or relevant market information, supplemented when applicable with valuations performed by internal valuation professionals. Their values reflect an orderly disposition, inclusive of marketing costs. In limited instances, we adjust externally provided appraisals for justifiable and well supported reasons, such as an appraiser not being aware of certain collateral-specific factors or recent sales information. Appraisals generally represent the “as is” value of the collateral but may be adjusted based on the intended disposition strategy.

Our determination of the ALLL for commercial loans is sensitive to the assigned internal risk ratings and inherent expected loss rates. A downgrade of one level in the PD risk ratings for all commercial loans and leases would have increased the ALLL by approximately \$446 million at December 31, 2018. If the estimated loss severity rates for the entire commercial loan portfolio were increased by 10%, the ALLL for the commercial portfolio would increase by approximately \$106 million at December 31, 2018.

The allowance for consumer loans is also sensitive to changes in estimated loss severity rates. If the estimated loss severity rates for these loans increased by 10%, the total ALLL for the consumer portfolio would increase by approximately \$39 million at December 31, 2018. These sensitivity analyses are intended to provide insights into the impact of adverse changes in risk rating and estimated loss severity rates and do not imply any expectation of future deterioration in the risk ratings or loss rates. Given current processes employed, management believes the risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, could reach different conclusions that could be material to our financial statements.

In addition to the ALLL, we estimate probable losses related to unfunded lending commitments, such as letters of credit and binding unfunded loan commitments. Unfunded lending commitments are analyzed and segregated by risk using our internal risk rating scale. These risk classifications, in combination with probability of commitment usage, and any other pertinent information, are utilized in estimating the reserve for unfunded lending commitments.

Our financial results are affected by the changes in the allowance for credit losses. This process involves our analysis of complex internal and external variables, and it requires that we exercise judgment to estimate an appropriate allowance for credit losses. Changes in the financial condition of individual borrowers, economic conditions, or the condition of various markets in which collateral may be sold could require us to significantly decrease or increase the level of the allowance for credit losses. Such an adjustment could materially affect net income. For additional information on our allowance for credit losses, see the "Allowance for Credit Losses" and "Nonperforming Assets" sections of this MD&A as well as Note 1, "Significant Accounting Policies," Note 7, "Loans," and Note 8, "Allowance for Credit Losses," to the Consolidated Financial Statements in this Form 10-K.

Legal and Regulatory Matters

We are parties to numerous claims and lawsuits arising in the course of our normal business activities, some of which involve claims for substantial amounts, and the outcomes of which are not within our complete control or may not be known for prolonged periods of time. Management is required to assess the probability of loss and amount of such loss, if any, in preparing our financial statements.

We evaluate the likelihood of a potential loss from legal or regulatory proceedings to which we are a party. We record a liability for such claims only when a loss is considered probable and the amount can be reasonably estimated. The liability is recorded in Other liabilities in the Consolidated Balance Sheets,

and the related expense is recorded in the applicable category of Noninterest expense, depending on the nature of the legal matter, in the Consolidated Statements of Income. Significant judgment may be required in determining both probability of loss and whether an exposure is reasonably estimable. Our estimates are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses, and consultation with in-house and outside legal counsel. In many such proceedings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. As additional information becomes available, we reassess the potential liability related to pending claims and may revise our estimates.

Due to the inherent uncertainties of the legal and regulatory processes in the jurisdictions in which we operate, our estimates may be materially different than the actual outcomes, which could have material effects on our business, financial condition, and results of operations. See Note 21, "Contingencies," to the Consolidated Financial Statements in this Form 10-K for additional information regarding legal and regulatory matters.

Estimates of Fair Value

The objective of a fair value measurement is to use market-based inputs or assumptions, when available, to estimate 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. When observable market prices from transactions for identical assets or liabilities are not available, we evaluate pricing for similar assets or liabilities. If observable market prices for such

assets or liabilities are unavailable or impracticable to obtain, we employ other techniques for estimating fair value (for example, obtaining third party price quotes or using modeling techniques such as discounted cash flows). The resulting valuation may include significant judgments, particularly when the market for an asset or liability is not active.

Fair value measurements for assets and liabilities that include significant inputs that are not observable in the market are classified as level 3 measurements in the fair value hierarchy. We have instituted various processes and controls surrounding these measurements to ensure appropriate methodologies are utilized. We maintain a cross-functional approach when estimating the fair value of these difficult to value financial instruments. This includes input from not only the related line of business, but also from risk management and finance, to ultimately arrive at an appropriate estimate of the instrument's fair value. This process often involves the gathering of multiple sources of information, including broker quotes, values provided by pricing services, trading activity in other similar instruments, market indices, and pricing matrices.

Modeling techniques incorporate our assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique. These assessments are subjective; the use of different assumptions could result in material changes to these fair value measurements. We employed significant unobservable inputs when estimating the fair value of certain securities AFS and derivative instruments (primarily IRLCs), LHFIs accounted for at fair value, and residential MSRs.

We record all single-family residential MSR's at fair value on a recurring basis. The fair value of residential MSR's is based on discounted cash flow analyses and can vary significantly quarter to quarter as market conditions and projected interest rates change. We provide disclosure of the key economic assumptions used to measure residential MSR's, including the uncertainty of the fair values to adverse changes to these assumptions, in Note 10, "Goodwill and Other Intangible Assets," to the Consolidated Financial Statements in this Form 10-K. The key assumptions do not take into account hedging activities discussed in the "Other Market Risk" section of this MD&A.

Overall, the financial impact of the level 3 financial instruments did not have a material impact on our liquidity or capital. Table 20 discloses assets and liabilities measured at fair value on a recurring basis that are classified as level 3 measurements.

Level 3 Assets and Liabilities

	Table 20			
	December 31			
(Dollars in millions)	2018	2017		
Assets:				
Derivative instruments ¹	\$20	\$16		
Securities AFS ²	—	72		
LHFI	163	196		
Residential MSR's	1,983	1,710		
Total level 3 assets	\$2,166	\$1,994		
Total assets	\$215,543	\$205,962		
Total assets measured at fair value on a recurring basis	40,367	39,579		
Level 3 assets as a % of total assets	1.0	%	1.0	%
Level 3 assets as a % of total assets measured at fair value on a recurring basis	5.4	%	5.0	%
Liabilities:				
Derivative instruments ¹	\$7	\$16		
Total level 3 liabilities	\$7	\$16		
Total liabilities	\$191,263	\$180,808		
Total liabilities measured at fair value on a recurring basis	2,296	2,049		
Level 3 liabilities as a % of total liabilities	—	%	—	%
Level 3 liabilities as a % of total liabilities measured at fair value on a recurring basis	0.3	%	0.8	%

¹ Includes IRLCs.

² Beginning January 1, 2018, we reclassified equity securities previously presented in Securities AFS to Other assets on the Consolidated Balance Sheets. Prior periods have been revised to conform to the current presentation.

Level 3 securities AFS decreased by \$72 million during the year ended December 31, 2018, driven primarily by sales of non-agency residential MBS and ABS. For a detailed discussion regarding level 3 financial instruments and valuation methodologies for each class of financial instrument, see Note 20, "Fair Value Election and Measurement," and Note 1, "Significant Accounting Policies," to the Consolidated Financial Statements in this Form 10-K.

Goodwill

At December 31, 2018, our reporting units were Consumer and Wholesale. See Note 22, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-K for further discussion of our reportable business segments. We conduct a

qualitative goodwill assessment at the reporting unit level at least quarterly, 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. Factors considered in our qualitative assessment include financial performance, financial forecasts, macroeconomic conditions, industry and market conditions, cost factors, market capitalization, carrying value, and events affecting the reporting units. If, after considering all relevant events and circumstances, we determine it is more-likely-than-not that the fair value of a reporting unit is less than its respective carrying amount, then a

quantitative impairment test is necessary to perform. If we elect to bypass the qualitative analysis, or conclude from our qualitative analysis that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, a two-step goodwill impairment test is performed either (i) annually as of October 1, or (ii) more frequently as considered necessary. In the first step of the impairment test, the fair value of each reporting unit is compared with its carrying amount. If the fair value is greater than the carrying amount, then the reporting unit's goodwill is deemed not to be impaired. If the fair value is less than the carrying amount, then a second step is performed, which measures the amount of impairment by comparing the carrying amount of goodwill to its implied fair value.

We performed a qualitative goodwill assessment for the Consumer and Wholesale reporting units as of October 1, 2018, and concluded that a quantitative goodwill impairment test was not necessary for either reporting unit. We performed quantitative goodwill impairment tests as of October 1, 2017 and 2016, and determined that for our reporting units with goodwill balances, the fair values were in excess of their respective carrying amounts; therefore, no goodwill impairment was recognized. For additional information, see Note 1, "Significant Accounting Policies," and Note 10, "Goodwill and Other Intangible Assets," to the Consolidated Financial Statements in this Form 10-K.

When we perform a quantitative analysis, the carrying value of equity of the reporting units, as well as Corporate Other, is determined by allocating our total equity to each reporting unit based on RWA using our actual Tier 1 capital ratio as of the measurement date. Tier 1 capital is utilized as it most closely aligns with equity as reported under U.S. GAAP. Appropriate adjustments are made to each reporting unit's allocation using Tier 1 capital to conform with U.S. GAAP equity, namely to add back equity tied to goodwill and other intangible assets. We view this approach of determining the reporting units' carrying amounts based on regulatory capital as an objective measurement of the equity that a market participant would require to operate the reporting units.

The quantitative goodwill impairment analysis estimates the fair value of equity using discounted cash flow analyses. The inputs and assumptions specific to each reporting unit are incorporated in the valuations, including projections of future cash flows, discount rates, and an estimated long-term growth rate. We assess the reasonableness of the estimated fair value of the reporting units by comparing implied valuation multiples with valuation multiples from guideline companies and by comparing the aggregate estimated fair value of the reporting units to our market capitalization over a reasonable period of

time. Significant and sustained declines in our market capitalization could be an indication of potential goodwill impairment.

Multi-year financial forecasts are developed for each reporting unit by considering several key business drivers such as new business initiatives, client service and retention standards, market share changes, anticipated loan and deposit growth, forward interest rates, historical performance, and industry and economic trends, among other considerations that a market participant would consider in valuing the reporting units. Discount rates are estimated based on the Capital Asset Pricing Model, which considers the risk-free interest rate, market risk premium, beta, size premiums, and idiosyncratic risk adjustments specific to a particular reporting unit. The discount rates are also calibrated based on risks related to the projected cash flows of each reporting unit.

The estimated fair values of the reporting units are highly sensitive to changes in these estimates and assumptions; therefore, in some instances, changes in these assumptions could impact whether the fair value of a reporting unit is greater than its carrying amount. We perform sensitivity analyses around these assumptions in order to assess the reasonableness of the assumptions, and the resulting estimated fair values. Ultimately, potential future changes in these assumptions may impact the estimated fair value of a reporting unit and cause the fair value of the reporting unit to be below its carrying amount. Additionally, the carrying value of a reporting unit's equity could change based on market conditions, asset growth, preferred stock issuances, or the risk profile of those reporting units, which could impact whether or not the fair value of a reporting unit is less than carrying amount.

Income Taxes

We are subject to income tax laws of the U.S., its states, and the municipalities where we conduct business. We estimate income tax expense based on amounts expected to be owed to these various tax jurisdictions. The estimated income tax expense or benefit is reported in the Consolidated Statements of Income.

Accrued taxes represent the net estimated amount due to or to be received from tax jurisdictions either currently or in the future and are reported in Other liabilities or Other assets on the Consolidated Balance Sheets. In estimating accrued taxes, we assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent, and other pertinent information. The income tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. Significant judgment is required in determining the tax accruals and in evaluating our tax positions, including evaluating uncertain tax positions. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws and new judicial guidance, the status of examinations by the tax authorities, and newly enacted statutory and regulatory guidance that could impact the relative merits and risks of tax positions. These changes, when they occur, impact tax expense and can materially affect our operating results. We review our tax positions quarterly and make adjustments to accrued taxes as new information becomes available.

Deferred income tax assets represent amounts available to reduce income taxes payable in future years. Such assets arise due to temporary differences between the financial reporting and the tax bases of assets and liabilities, as well as from NOL and tax credit carryforwards. We regularly evaluate the realizability of DTAs. A valuation allowance is recognized for a DTA if, based on the weight of available evidence, it is more-likely-than-not that some portion or all of the DTA will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years to the extent that carrybacks are permitted under current tax laws, as well as estimates of future pre-tax and taxable income and tax planning strategies that would, if necessary, be implemented. We currently maintain a valuation allowance for certain state carryforwards and certain other state DTAs. Since we expect to realize our remaining federal and state DTAs, no valuation allowance is deemed necessary against these DTAs at December 31, 2018. For additional income tax information, refer to the "Provision for Income Taxes" section in this MD&A as well as Note 1, "Significant Accounting Policies," and Note 16, "Income Taxes," to the Consolidated Financial Statements in this Form 10-K.

Employee Benefit Plans

We maintain various pension and other postretirement benefit plans for employees who meet certain requirements. Changes in the size and characteristics of the workforce or changes in the plan's design could result in a partial settlement of one or more of our pension plans. If lump sum payments were to exceed the total of interest cost and

service cost for the year, settlement accounting would require immediate recognition through earnings of any net actuarial gain or loss recorded in AOCI based on the fair value of plan assets and plan obligations prior to settlement, and recognition of any related settlement costs.

During the fourth quarter of 2018, we reclassified \$60 million of pre-tax deferred losses from AOCI into net income upon settlement of the NCF Retirement Plan. For additional information on our pension and other postretirement benefit plans as well as the NCF Retirement Plan settlement, see Note 17, "Employee Benefit Plans," to the Consolidated Financial Statements in this Form 10-K.

ENTERPRISE RISK MANAGEMENT

In the normal course of business, we are exposed to various risks. We have established an enterprise risk framework to identify and manage these risks and support key business objectives. Underlying this framework are limits, metrics, policies, procedures, and processes designed to effectively identify, monitor, and manage risk in line with our overall risk appetite. Our risk management philosophy is not to eliminate risk entirely but rather to only accept risks that can be effectively managed and balanced with acceptable returns while also meeting regulatory objectives.

The Board is responsible for establishing our desired overall risk appetite and for oversight of risk management processes through the BRC. The BRC reports to and assists the Board in

overseeing enterprise risk management (i.e., credit, market, liquidity, operational, technology, compliance, reputational, and strategic risk), enterprise capital adequacy, and material regulatory matters. The CRO provides overall vision, direction, and leadership regarding our enterprise risk management framework and risk management culture. The CRO reports to the CEO and the BRC.

Enterprise Risk establishes sound risk and governance frameworks, policies, procedures, and processes that focus on identifying, measuring, analyzing, managing, and reporting the risks that we face. Enterprise Risk fulfills its independent risk oversight responsibilities by developing, deploying, and monitoring enterprise-wide frameworks and policies to manage risk. At its core, Enterprise Risk's objective is to deliver sophisticated risk management capabilities throughout the organization that:

- Align risk taking with the risk appetite established by the Board,
 - Identify, measure, analyze, manage, escalate, and report risk at the transaction, portfolio, and enterprise levels,
 - Support client facing businesses as they seek to balance risk taking with business and safety/soundness objectives,
 - Optimize decision making,
 - Promote sound processes and regulatory compliance,
 - Maximize shareholder value, and
- Support our purpose of *Lighting the Way to Financial Well-Being*, support our performance promise of *Leading the Movement for Financial Well-Being*, and conform to our guiding principles of *Client First, One Team, Executional Excellence*, and *Profitable Growth*.

Our risk management culture operates within the context of our broader, purpose-driven corporate culture. Risk awareness within our culture informs the manner in which teammates act in the absence of specific guidance. Our teammates are expected to:

- Put the client first,
- Exhibit strong personal and professional risk leadership, integrity, and ethics in all business dealings,
- Understand risks encountered and demonstrate a commitment to managing risks through individual actions,
- Demonstrate honesty, fairness, and respect in all internal and external interactions, and
- Emphasize the importance of executional excellence in all activities.

Our enterprise risk structure and processes are founded upon a comprehensive risk management roles and responsibilities framework, which delineates accountabilities across four dimensions.

Risk Owners develop and implement strategies to drive opportunities; own accountability for business risks and control design/effectiveness to operate within the policies, standards, and limits set by Risk Oversight; escalate changes in the business or the risk environment that could affect risk appetite and control environment; and provide sufficient resources and infrastructure to manage activities to meet strategic objectives within risk appetite.

Business Controls identify and assess the risks the business takes or is exposed to while conducting its activities; provide input to and accept articulation of risk appetite in policies, standards, and limits set by Risk Oversight; provide business analyses and support; determine whether business activities operate within policies, standards, and limits; and facilitate ongoing risk and control self-assessments to document, monitor, and evaluate control design and effectiveness.

Risk Oversight provides independent oversight of all risk taking and risk management activities across all risk types and businesses; facilitates risk appetite expression by the Board within corporate strategic planning processes; sets risk management policies, standards, and limits; provides credible, independent challenge to risk owners and business' risk and control self-assessments; independently monitors, challenges, and reports on aggregate business results within risk appetite framework.

Risk Assurance provides independent assessments of the risk management and internal control framework and systems. The scope of these assessments includes, but is not limited to, compliance with policies, standards, and limits; effectiveness of the independent risk management function; completeness and accuracy of information; and independent assessment of credit quality.

In practice, risk measurement activities occur at all levels of the organization. Enterprise Risk uses a variety of tools, reports, and analyses to evaluate specific exposures in order to:

- Provide a holistic view of risks,

Present quantitative and qualitative assessments of current risks, which may be predictive of future risk trends and levels, and

- Promote transparency by fostering direct communication between Executive Management and the Board.

Enterprise risk governance is supported by a number of chartered risk-focused senior management committees. These “executive committees” are responsible for ensuring effective risk measurement and management within their respective areas of authority, and include the ERC, ALCO, CC, PMC, EBPC, TMC, and SIRC.

ERC is chaired by the CRO and supports the CRO in identifying, measuring, and managing the Bank’s aggregate risk profile. ERC maintains a comprehensive perspective of existing and prospective risks; the effectiveness of risk management frameworks, policies and activities; and the execution of risk management processes.

ALCO is chaired by the CFO and ensures that proper measurement, monitoring, management, and control processes are in place to achieve our ALM and liquidity risk management goals.

CC is also chaired by the CFO and ensures that the proper measurement, monitoring, management, and control processes are in place to achieve our strategic capital goals, while also continuing to manage our risk-capital balance to meet regulatory capital adequacy and stakeholder return expectations.

PMC is chaired by the Wholesale Segment Executive and facilitates the development of portfolio strategy that

addresses capital utilization, balance sheet optimization, and risk concentrations.

EBPC is chaired by the Chief Human Resources Officer and is in place to assess and make determinations regarding our business practices to ensure alignment with core purpose, principles, and values, and to share best practices.

EBPC also serves as the forum for enterprise reputational risk exposures.

TMC is chaired by the CIO and provides a forum to discuss, debate, and challenge technology strategies and investments to ensure alignment of technology strategy execution across our organization.

SIRC is chaired by the CRO and is responsible for identifying constraints to business acceleration, challenging assumptions or execution strategies, and validating alignment with our purpose, risk appetite, and strategic direction.

SIRC serves as a forum to further support executive level review of strategic initiatives, strategic investments, and strategic risk appetite.

The CEO, CFO, and CRO are members of each of these executive committees. Additionally, other executive and senior officers are members of these committees based upon their responsibilities and subject matter expertise.

Enterprise Risk continually refines our risk governance structures, frameworks and management limits, policies, procedures, and processes to reflect ongoing changes in our operating environment and/or corporate goals and strategies.

Credit Risk Management

Credit risk refers to the potential for economic loss arising from the failure of clients to meet their contractual agreements on all credit instruments, including on-balance sheet exposures from loans, leases, and investment securities, as well as contingent exposures including unfunded commitments, letters of credit, credit derivatives, and counterparty risk under derivative products. As credit risk is an essential component of many of the products and services we provide to our clients, the ability to accurately measure and manage credit risk is integral to maintaining the long-run profitability and capital adequacy of our business. We commit to maintain and enhance a comprehensive credit system to meet business requirements and comply with evolving regulatory standards.

Enterprise Risk establishes and oversees adherence to the credit risk management governance frameworks and policies, independently measures, analyzes, and reports on loan portfolio and risk trends, and actively participates in the formulation of our credit strategies. Credit risk officers and supporting teammates within our lines of business are direct participants in the origination, underwriting, and ongoing management of credit. They work to promote an appropriate balance between our risk management and business objectives through adherence to established policies, procedures, and standards. Credit Review, one of our independent assurance functions, regularly assesses and reports on business unit and enterprise asset quality, and the integrity of our credit processes. Additionally, total borrower exposure limits and concentration risks are established and monitored. Credit risk may be mitigated through purchase

of credit loss protection via third party insurance and/or use of credit derivatives such as CDS.

Borrower/counterparty (obligor) risk and facility risk is evaluated using our risk rating methodology, which is utilized in all lines of business. We use various risk models to estimate both expected and unexpected loss, which incorporates both internal and external default and loss experience. To the extent possible, we collect and use internal data to ensure the validity, reliability, and accuracy of our risk models used in default, severity, and loss estimation. See the “Critical Accounting Policies—Allowance for Credit Losses” section of this MD&A and Note 1, “Significant Accounting Policies,” to the Consolidated Financial Statements in this Form 10-K for information on our credit risk management activities as well as our ALLL accounting policy and determination. Information regarding our credit quality indicators can be found in Note 7, “Loans,” to the Consolidated Financial Statements in this Form 10-K.

Operational Risk Management

We face ongoing and emerging risks and regulations related to the activities that surround the delivery of banking and financial products, and we depend on our ability to process, record, and monitor a large number of client transactions on a continuous basis. As the potential for operational loss remains elevated and as client, public, and regulatory expectations regarding operational and information security have increased, we continue to enhance our efforts to

safeguard and monitor our operational systems and infrastructure.

We believe that effective management of operational risk, defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, plays a major role in both the level and the stability of our profitability. Our Enterprise Operational Risk Management function oversees an enterprise-wide framework intended to identify, assess, control, monitor, and report on operational risks. These processes support our goals to minimize future operational losses and strengthen our performance by maintaining sufficient capital to absorb operational losses that are incurred.

Cybersecurity Risk Management

Our business activities and operations rely on our systems, computers, software, data, networks, the internet, and digital applications, as well as the systems and infrastructure of third parties. Our business, financial, accounting, data processing, or other systems or infrastructure may stop operating properly or become disabled or damaged as a result of a number of factors and influences that are wholly or partially beyond our control, such as potential failures, disruptions, or breakdowns, whether as a result of human error or intentional attack, as well as market conditions, fraudulent activities, natural disasters, electrical or telecommunications outages, political or social matters including terrorist acts, country risk, vendor risk, cyber-attacks, or other security risks. The use of digital technologies introduces cybersecurity risk that can manifest in the form of information theft, criminal acts by individuals, groups, or nation states, or other disruptions to our Company's, clients', or third parties'

business operations. We use a wide array of techniques to secure our operations and proprietary information such as Board approved policies and programs, network monitoring, access controls, and dedicated security personnel, as well as consultation with third party data security experts.

To control cybersecurity risk, we maintain an active information security program that is designed to conform with FFIEC guidance. This information security program is designed to mitigate operational risks and is overseen by executive management, the Board, and our independent audit function. This program continually monitors and evaluates threats, events, and the performance of our business operations and continually adapts and modifies its risk mitigation activities accordingly. We also utilize appropriate cybersecurity insurance that controls against certain losses, expenses, and damages associated with cyber risk. In addition, our Board devotes significant time and attention to oversight of cybersecurity risk.

Further, we have adopted the National Institute of Standards and Technology's Cybersecurity Framework ("CSF") and perform periodic assessments against the framework to measure cybersecurity maturity. We also fully participate in the federally recognized financial sector information sharing organization structure, known as the Financial Services Information Sharing and Analysis Center. Digital technology is constantly evolving, and new and unforeseen threats and actions by others may disrupt operations or result in losses beyond our risk control thresholds. Although we invest substantial time and resources to manage and reduce cyber risk, it is not possible to completely eliminate this risk.

Our BRC reviews and approves policies relating to enterprise technology risk, business continuity management, information security, and enterprise data quality governance. The BRC also reviews and approves key technology risks and associated action plans. To ensure the integrity of our crisis management program, routine testing simulations are utilized to validate the viability of our plans. These ongoing tests are designed to provide assurance that our action plans are effective, valuable, and usable in the event of a significant business disruption. Crisis exercises are scenario-driven exercises that simulate impacts and consequences. Scenarios are developed through analysis of technology incidents, known cyber threats, internal stakeholder input, and industry trends.

We maintain an information security education and awareness program to provide consistent messaging to all users that may require access to our information about the need to maintain the security and privacy of that information. All users (i.e., full-time teammates, contractors, third parties, etc.) must complete this training before being granted access to our information systems. The content of the training program is reviewed annually to ensure that it addresses the current needs of our organization. In addition, communications to teammates through our intranet site, newsletters, email broadcasts, and targeted emails to select teammates, as necessary, foster awareness of information security risks. See Item 1A, "Risk Factors," in this Form 10-K for additional information regarding the risks associated with a failure or breach of our operational systems or infrastructure, including as a result of cyber-attacks.

Market Risk Management

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices, and other relevant market rates or prices. Interest rate risk, defined as the exposure of net interest income and MVE to changes in interest rates, is our primary market risk and mainly arises from changes in the structure and composition of our balance sheet. Variable rate loans, prior to any hedging related actions, were approximately 57% of total loans at December 31, 2018, and after giving consideration to hedging related actions, were approximately 50% of total loans. Less than 5% of our variable rate loans at December 31, 2018 had coupon rates that were equal to a contractually specified interest rate floor. In addition to balance sheet related interest rate risk, we are also exposed to market risk in our trading portfolios and other financial instruments measured at fair value. Our ALCO meets regularly and is responsible for reviewing our ALM and liquidity risk position in conformance with the established policies and limits designed to measure, monitor, and control market risk.

Market Risk from Non-Trading Activities

The primary goal of interest rate risk management is to control exposure to interest rate risk within policy limits approved by the Board. These limits reflect our appetite for interest rate risk over both short-term and long-term horizons. No limit breaches occurred during the year ended December 31, 2018.

The major sources of our non-trading interest rate risk are timing differences in the maturity and repricing characteristics of assets and liabilities, changes in the absolute level and shape of the yield curve, as well as the embedded optionality in our products and related customer behavior. We measure these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models, which, as described in additional detail below, are employed by management to understand net interest income sensitivity and MVE sensitivity. These measures show that our interest rate risk profile is modestly asset sensitive at December 31, 2018.

MVE and net interest income sensitivity are complementary interest rate risk metrics and should be viewed together. Net interest income sensitivity captures asset and liability repricing differences over one year and is considered a shorter term measure. MVE sensitivity captures the change in the discounted net present value of all on- and off-balance sheet items and is considered a longer term measure.

Positive net interest income sensitivity in a rising rate environment indicates that over the forecast horizon of one year, asset based interest income will increase more quickly than liability based interest expense. A negative MVE sensitivity in a rising rate environment indicates that the value of financial assets will decrease more than the value of financial liabilities.

One of the primary methods that we use to quantify and manage interest rate risk is simulation analysis, which we use to model net interest income from assets, liabilities, and derivative positions under various interest rate scenarios and balance sheet structures. We measure the sensitivity of net interest income over a one-year time horizon, as reflected in Table 21, as well as for multi-year time horizons. Key assumptions in this form of simulation analysis (and in the valuation analysis discussed below) relate to the behavior of interest rates and spreads, the

changes in product balances, and the behavior of loan and deposit clients in different rate environments. This analysis incorporates various assumptions, the most significant of which relate to the repricing and behavioral fluctuations of deposits with indeterminate or non-contractual maturities.

As the future path of interest rates is not known, we use a simulation analysis to project net interest income under various and potentially extreme scenarios. These scenarios may include rapid and gradual ramping of interest rates, rate shocks, basis risk analysis, and yield curve twists. Specific strategies are also analyzed to determine their impact on net interest income levels and sensitivities.

The sensitivity analysis presented in Table 21 is measured as a percentage change in net interest income due to instantaneous moves in benchmark interest rates. Estimated changes are dependent upon material assumptions such as those previously discussed.

Net Interest Income Asset Sensitivity **Table 21**

	Estimated % Change in Net Interest Income Over 12 Months ¹ December 31, 2018		December 31, 2017
Rate Change			
+200 bps	2.3%		2.4%
+100 bps	1.2%		1.4%
-50 bps	(0.9)%		(1.0)%

¹ Estimated % change of net interest income is reflected on a non-FTE basis.

Net interest income asset sensitivity at December 31, 2018 decreased slightly compared to December 31, 2017, driven primarily by an increase in wholesale funding. See additional discussion related to net interest income in the "Net Interest Income/Margin" section of this MD&A.

We also perform valuation analyses, which we use for discerning levels of risk present in the balance sheet and derivative positions that might not be taken into account in the net interest income simulation horizon. Whereas a net interest income simulation highlights exposures over a relatively short time horizon, our valuation analysis incorporates all cash flows over the estimated remaining life of all balance sheet and derivative positions.

The valuation of the balance sheet, at a point in time, is defined as the discounted present value of asset and derivative cash flows minus the discounted present value of liability cash flows, the net of which is referred to as MVE. The sensitivity of MVE to changes in the level of interest rates is a measure of the longer-term repricing risk and embedded optionality in the balance sheet. Similar to the net interest income simulation, MVE uses instantaneous changes in rates. However, MVE values only the current balance sheet and does not incorporate originations of new/replacement business or balance sheet growth that may be used in the net interest income simulation model. As with the net interest income simulation model, assumptions about the timing and variability of balance sheet cash flows are critical in the MVE analysis. Significant MVE assumptions include those that drive prepayment speeds, expected changes in balances, and pricing of the indeterminate deposit portfolios.

At December 31, 2018, the MVE profile in Table 22 indicates a decline in net balance sheet value due to instantaneous upward changes in rates. This MVE sensitivity is reported for both upward and downward rate shocks.

Market Value of Equity Sensitivity **Table 22**

	Estimated % Change in MVE December 31, 2018		December 31, 2017
Rate Change			
+200 bps	(5.7)%		(7.6)%
+100 bps	(2.5)%		(3.3)%
-50 bps	0.3%		0.8%

MVE sensitivity for upward and downward rate shocks at December 31, 2018 decreased compared to December 31, 2017, driven primarily by a decline in the duration of hedging positions as well as by changes in interest rates and balance sheet mix. While an instantaneous and severe shift in interest rates was used in this analysis to provide an estimate of exposure under these rate scenarios, we believe that a gradual shift in interest rates would have a much more modest impact.

Since MVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in MVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Furthermore, MVE does not take into account factors such as future balance sheet growth, changes in product mix, changes in yield curve relationships, and changing product spreads that could mitigate the impact of changes in interest rates. The net interest income simulation and valuation analyses do not include actions that management may undertake to manage this risk in response to anticipated changes in interest rates.

Market Risk from Trading Activities

We manage market risk associated with trading activities using a comprehensive risk management approach, which includes VAR metrics, stress testing, and sensitivity analyses. Risk metrics are measured and monitored on a daily basis at both the trading desk and at the aggregate portfolio level to ensure exposures are in line with our risk appetite. Our risk measurement for covered positions subject to the Market Risk Rule issued by the U.S. banking regulators takes into account trading exposures resulting from interest rate risk, equity risk, foreign exchange rate risk, credit spread risk, and commodity price risk.

For trading portfolios, VAR measures the estimated maximum loss from one or more trading positions, given a specified confidence level and time horizon. VAR results are monitored daily against established limits. For risk management purposes, our VAR calculation is based on a historical simulation and measures the potential trading losses using a one-day holding period at a one-tail, 99% confidence level. This means that, on average, trading losses could exceed VAR one out of 100 trading days or two to three times per year. Due to inherent limitations of the VAR methodology, such as the assumption that past market behavior is indicative of future market performance, VAR is only one of several tools used to manage market risk. Other tools used to actively manage market risk include stress testing, profit and loss attribution, and stop loss limits.

In addition to VAR, as required by the Market Risk Rule, we calculate Stressed VAR, which is used as a component of the total market risk capital charge. We calculate the Stressed VAR risk measure using a ten-day holding period at a one-tail, 99% confidence level and employ a historical simulation approach based on a continuous twelve-month historical window selected to reflect a period of significant financial stress for our trading portfolio. The historical period used in the selection of the stress window encompasses all financial crises since January 1, 2008. Our Stressed VAR calculation uses the same methodology and models as VAR, which is a requirement under the Market Risk Rule. Table 23 presents VAR and Stressed VAR for the year ended December 31, 2018 and 2017, as well as VAR by Risk Factor at December 31, 2018 and 2017.

Value at Risk Profile	Table 23	
	Year Ended December 31	
(Dollars in millions)	2018	2017
VAR (1-day holding period):		
Period end	\$2	\$2
High	3	3
Low	1	1
Average	2	2
Stressed VAR (10-day holding period):		
Period end	\$42	\$52
High	103	110
Low	25	22
Average	60	54
VAR by Risk Factor at period end (1-day holding period):		
Equity risk	\$2	\$1
Interest rate risk	1	2
Credit spread risk	2	3
VAR total at period end (1-day diversified)	2	2

The trading portfolio, measured in terms of VAR, is predominantly comprised of four sub-portfolios of covered positions: (i) credit trading, (ii) fixed income securities, (iii) interest rate derivatives, and (iv) equity derivatives. In support of our comprehensive range of capital market activity, the trading

portfolio also contains other sub-portfolios, including foreign exchange rate and commodity derivatives; however, these related trading risk exposures are not material. Our covered positions result primarily from underwriting and market making services for our clients, as well as associated risk mitigating hedging activity. The trading portfolio's VAR profile, presented in Table 23, is influenced by a variety of factors, including the size and composition of the portfolio, market volatility, and the correlation between different positions. Notwithstanding normal variations in the VAR associated with individual risk factors, average daily VAR as well as period end VAR for the year ended December 31, 2018 remained largely unchanged compared to the same period in 2017. Stressed VAR remained within comparable historic ranges throughout the year ended December 31, 2018, reflecting typical fluctuations in portfolio composition and balance sheet usage, along with changes in risk factor levels. The trading portfolio of covered positions did not contain any correlation trading positions or on- or off-balance sheet securitization positions during the year ended December 31, 2018 or 2017.

In accordance with the Market Risk Rule, we evaluate the accuracy of our VAR model through daily backtesting by comparing aggregate daily trading gains and losses (excluding fees, commissions, reserves, net interest income, and intraday trading) from covered positions with the corresponding daily VAR-based measures generated by the model.

As illustrated in the following graph, there were two firmwide VAR backtesting exceptions during the twelve months ended December 31, 2018. These two backtesting exceptions were driven primarily by credit spread widening during the broader sell-off in equity and credit markets during the latter half of December 2018, which impacted our corporate credit trading portfolio of bonds and loans. The total number of firmwide VAR backtesting exceptions over the preceding twelve months is used to determine the multiplication factor for the VAR-based capital requirement under the Market Risk Rule. The capital multiplication factor increases from a minimum of three to a maximum of four, depending on the number of exceptions. There was no change in the capital multiplication factor over the preceding twelve months.

We have valuation policies, procedures, and methodologies for all covered positions. Additionally, trading positions are reported in accordance with U.S. GAAP and are subject to independent price verification. See Note 19, “Derivative Financial Instruments,” and Note 20, “Fair Value Election and Measurement,” to the Consolidated Financial Statements in this Form 10-K, as well as the “Critical Accounting Policies” MD&A section of this Form 10-K for discussion of valuation policies, procedures, and methodologies.

Model risk management: Our approach regarding the validation and evaluation of the accuracy of our internal models, external models, and associated processes, includes developmental and implementation testing as well as ongoing monitoring and maintenance performed by the various model developers, in conjunction with model owners. Our MRMG is responsible for the independent model validation of all trading risk models. The validation typically includes evaluation of all model documentation as well as model monitoring and maintenance plans. We regularly review the performance of all trading risk models through our model monitoring and maintenance process to preemptively address emerging developments in financial markets, assess evolving modeling approaches, and to identify potential model enhancement.

Stress testing: We use a comprehensive range of stress testing techniques to help monitor risks across trading desks and to augment standard daily VAR and other risk limits reporting. The stress testing framework is designed to quantify the impact of extreme, but plausible, stress scenarios that could lead to large unexpected losses. Our stress tests include simulations for historical repeats and hypothetical risk factor shocks. All trading positions within each applicable market risk category (interest

rate risk, equity risk, foreign exchange rate risk, credit spread risk, and commodity price risk) are included in our comprehensive stress testing framework. We review stress testing scenarios on an ongoing basis and make updates as necessary to ensure that both current and emerging risks are captured appropriately.

Trading portfolio capital adequacy: We assess capital adequacy on a regular basis, which is based on estimates of our risk profile and capital positions under baseline and stressed scenarios. Scenarios consider significant risks, including credit risk, market risk, and operational risk. Our assessment of capital adequacy arising from market risk includes a review of risk arising from material portfolios of covered positions. See the “Capital Resources” section in this MD&A for additional discussion of capital adequacy.

Liquidity Risk Management

Liquidity risk is the risk of being unable, at a reasonable cost, to meet financial obligations as they come due. We manage liquidity risk consistent with our enterprise risk management practices in order to mitigate our three primary liquidity risks: (i) structural liquidity risk, (ii) market liquidity risk, and (iii) contingency liquidity risk. Structural liquidity risk arises from our maturity transformation activities and balance sheet structure, which may create differences in the timing of cash inflows and outflows. Market liquidity risk, which we also describe as refinancing or refunding risk, constitutes the risk that we could lose access to the financial markets or the cost of such access may rise to undesirable levels. Contingency liquidity risk arises from rare and severely adverse liquidity events; these

events may be idiosyncratic or systemic, or a combination thereof.

We mitigate these risks utilizing a variety of tested liquidity management techniques in keeping with regulatory guidance and industry best practices. For example, we mitigate structural liquidity risk by structuring our balance sheet prudently so that we fund less liquid assets, such as loans, with stable funding sources, such as consumer and commercial deposits, long-term debt, and capital. We mitigate market liquidity risk by maintaining diverse borrowing resources to fund projected cash needs and structuring our liabilities to avoid maturity concentrations. We test contingency liquidity risk from a range of potential adverse circumstances in our contingency funding scenarios. These scenarios inform the amount of contingency liquidity sources we maintain as a liquidity buffer to ensure we can meet our obligations in a timely manner under adverse contingency liquidity events.

Governance. We maintain a comprehensive liquidity risk governance structure in keeping with regulatory guidance and industry best practices. Our Board, through the BRC, oversees liquidity risk management and establishes our liquidity risk appetite via a set of cascading risk limits. The BRC reviews and approves risk policies to establish these limits and regularly reviews reports prepared by senior management to monitor compliance with these policies. The Board charges the CEO with determining corporate strategies in accordance with its risk appetite, and the CEO is a member of our ALCO, which is the executive level committee with oversight of liquidity risk management. The ALCO regularly monitors our liquidity and compliance with liquidity risk limits, and also reviews and approves liquidity management strategies and tactics.

Management and Reporting Framework. Corporate Treasury, under the oversight of the ALCO, is responsible for managing consolidated liquidity risks we encounter in the course of our business. In so doing, Corporate Treasury develops and implements short-term and long-term liquidity management strategies, funding plans, and liquidity stress tests, and also monitors early warning indicators; all of which assist in identifying, measuring, monitoring, reporting, and managing our liquidity risks. Corporate Treasury primarily monitors and manages liquidity risk at the Parent Company and Bank levels as the non-bank subsidiaries are relatively small and ultimately rely upon the Parent Company as a source of liquidity in adverse environments. Corporate Treasury also monitors liquidity developments of, and maintains a regular dialogue with, our other legal entities.

MRM conducts independent oversight and governance of liquidity risk management activities. For example, MRM works with Corporate Treasury to ensure our liquidity risk management practices conform to applicable laws and regulations and evaluates key assumptions incorporated in our contingency funding scenarios.

Further, the internal audit function performs the risk assurance role for liquidity risk management. Internal audit conducts an independent assessment of the adequacy of internal controls, including procedural documentation, approval processes, reconciliations, and other mechanisms employed by liquidity risk management and MRM to ensure that liquidity risk

is consistent with applicable policies, procedures, laws, and regulations.

LCR requirements under Regulation WW require large U.S. banking organizations to hold unencumbered high-quality liquid assets sufficient to withstand projected 30-day total net cash outflows, each as defined under the LCR rule. At December 31, 2018, our LCR calculated pursuant to the rule was above the 100% minimum regulatory requirement. For the three months ended December 31, 2018, our average month-end LCR was 110%.

On December 19, 2016, the FRB published a final rule implementing public disclosure requirements for BHCs subject to the LCR that requires them to publicly disclose quantitative and qualitative information regarding their respective LCR calculations on a quarterly basis. We are required to disclose elements under this final rule for quarterly periods ending after October 1, 2018, which can be found on our investor relations website at <http://investors.suntrust.com>.

On May 3, 2016, the FRB, OCC, and the FDIC issued a joint proposed rule to implement the NSFR. The proposal would require large U.S. banking organizations to maintain a stable funding profile over a one-year horizon. The FRB proposed a modified NSFR requirement for BHCs with greater than \$50 billion but less than \$250 billion in total consolidated assets, and less than \$10 billion in total on balance sheet foreign exposure. The proposed NSFR requirement seeks to (i) reduce vulnerability to liquidity risk in financial institution funding structures and (ii) promote improved standardization in the measurement, management and disclosure of liquidity risk. The proposed rule contains an implementation date of January 1, 2018; however, a final rule has not yet been issued.

On October 31, 2018, the FRB released a draft proposal designed to tailor the application of the enhanced prudential standards pursuant to the EGRRCPA. Under the proposal, four categories of standards would be applied to U.S. banking organizations based on size, complexity, and other risk-based factors. If the proposal is finalized as proposed, we would no longer be subject to the mandatory LCR and proposed NSFR requirements. Internal liquidity stress testing, liquidity buffer, and liquidity risk management requirements would still apply.

Uses of Funds. Our primary uses of funds include the extension of loans and credit, the purchase of investment securities, working capital, and debt and capital service. The Bank borrows from the money markets using instruments such as Fed Funds, Eurodollars, and securities sold under agreements to repurchase. At December 31, 2018, the Bank retained a material cash position in its Federal Reserve account. The Parent Company also retained a material cash position in its account with the Bank in accordance with our policies and risk limits, discussed in greater detail below.

Sources of Funds. Our primary source of funds is a large, stable deposit base. Core deposits, predominantly made up of consumer and commercial deposits originated primarily from our retail branch network and Wholesale client base, are our largest and most cost-effective source of funding. Total deposits increased to \$162.6 billion at December 31, 2018, from \$160.8 billion at December 31, 2017.

We also maintain access to diversified sources for both secured and unsecured wholesale funding. These uncommitted sources include Fed Funds purchased from other financial institutions, securities sold under agreements to repurchase, FHLB advances, and Global Bank Notes. Aggregate borrowings increased to \$23.8 billion at December 31, 2018, from \$14.6 billion at December 31, 2017. These additional borrowings include a mix of both secured and unsecured funding and have primarily been used to support loan growth.

The Bank and Parent Company maintain programs to access the debt capital markets. The Parent Company maintains an SEC shelf registration from which it may issue senior or subordinated notes and various capital securities, such as common or preferred stock. In August 2018, our Board approved a new SEC shelf registration, which authorized the issuance of up to \$6.0 billion of such securities, of which \$5.9 billion of issuance capacity remained available at December 31, 2018. Under our previous SEC shelf registration, the Board authorized the issuance of up to \$5.0 billion of such securities, of which \$1.7 billion of issuance capacity remained available at December 31, 2017.

The Bank maintains a Global Bank Note program under which it may issue senior or subordinated debt with various terms. At December 31, 2018, the Bank retained \$31.5 billion of remaining capacity to issue notes under the Global Bank Note program. Refer to Table 18 in the “Borrowings” section for details regarding Bank and Parent Company debt issuances completed during 2018.

Our issuance capacity under these Bank and Parent Company programs refers to authorization granted by our Board, which is a formal program capacity and not a commitment to purchase by any investor. Debt and equity securities issued under these programs are designed to appeal primarily to domestic and international institutional investors. Institutional investor demand for these securities depends upon numerous factors, including, but not limited to, our credit ratings, investor perception of financial market conditions, and the health of the banking sector. Therefore, our ability to access these markets in the future could be impaired for either idiosyncratic or systemic reasons.

We assess liquidity needs that may occur in both the normal course of business and during times of unusual, adverse events, considering both on and off-balance sheet arrangements and commitments that may impact liquidity in certain business environments. We have contingency funding scenarios and plans that assess liquidity needs that may arise from certain stress events such as severe economic recessions, financial market disruptions, and credit rating downgrades. In particular, a ratings downgrade could adversely impact the cost and availability of some of our liquid funding sources. Factors that affect our credit ratings include, but are not limited to, the credit risk profile of our assets, the adequacy of our ALLL, the level and stability of our earnings, the liquidity profile of both the Bank and the Parent

Company, the economic environment, and the adequacy of our capital base.

As illustrated in Table 24, S&P assigned a “Credit Watch Positive” outlook on our credit rating, while both Moody’s and Fitch assigned “Positive” outlooks. Future credit rating downgrades are possible, although not currently anticipated given these “Credit Watch Positive” and “Positive” credit rating outlooks.

Credit Ratings and Outlook **Table 24**

	December 31, 2018 ¹		Fitch
	Moody’s S&P		
SunTrust Banks, Inc.:			
Senior debt	Baa1	BBB+	A-
Preferred stock	Baa3	BB+	BB

SunTrust Bank:

Long-term deposits	A1	A-	A
Short-term deposits	P-1	A-2	F1
Senior debt	Baal	A-	A-

Outlook ¹ **Positive** **Credit Watch Positive** **Positive**

¹ In February 2019, following our announced intention to merge with BB&T (as discussed in Note 25, “Subsequent Event,” to the Consolidated Financial Statements in this Form 10-K), S&P revised our credit rating outlook from “Positive” to “Credit Watch Positive,” and Moody’s and Fitch revised our credit rating outlook from “Stable” to “Positive.” The credit ratings and outlook presented in the above table reflect these updates.

Our investment securities portfolio is a store of liquidity that is managed as part of our overall liquidity management and ALM process to optimize income and portfolio value, maintaining the majority of securities in liquid and high-grade asset classes, such as agency MBS, agency debt, and U.S. Treasury securities; nearly all of these securities qualify as high-quality liquid assets under the U.S. LCR Final Rule. At December 31, 2018, our securities AFS portfolio contained \$28.0 billion of unencumbered, high-quality liquid securities at market value.

As mentioned above, we evaluate contingency funding scenarios to anticipate and manage the likely impact of impaired capital markets access and other adverse liquidity circumstances. Our contingency plans also provide for continuous monitoring of net borrowed funds dependence and available sources of contingency liquidity. These contingency liquidity sources include available cash reserves, the ability to sell, pledge, or borrow against unencumbered securities in our investment portfolio, the capacity to borrow from the FHLB system or the Federal Reserve discount window, and the ability to sell or securitize certain loan portfolios. Table 25 presents period end and average balances of our contingency liquidity sources for 2018 and 2017. These sources exceed our contingency liquidity needs as measured in our contingency funding scenarios.

Contingency Liquidity Sources

Table 25

(Dollars in billions)	As of		Average for the Year Ended ¹	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Excess reserves	\$2.9	\$2.6	\$2.6	\$2.9
Free and liquid investment portfolio securities	28.0	26.8	27.5	27.4
Unused FHLB borrowing capacity	20.2	23.8	24.0	22.2
Unused discount window borrowing capacity	21.3	18.2	19.1	17.6
Total	\$72.4	\$71.4	\$73.2	\$70.1

¹ Average based upon month-end data, except excess reserves, which is based upon a daily average.

Federal Home Loan Bank and Federal Reserve Bank Stock. We previously acquired capital stock in the FHLB of Atlanta as a precondition for becoming a member of that institution. As a member, we are able to take advantage of competitively priced advances as a wholesale funding source and to access grants and low-cost loans for affordable housing and community development projects, among other benefits. At December 31, 2018, we held \$227 million of capital stock in the FHLB of Atlanta, an increase of \$212 million compared to December 31, 2017 due to an increase in short-term FHLB advances over the same period. For each of the years ended December 31, 2018, 2017, and 2016, we recognized an immaterial amount of dividends related to FHLB capital stock.

Similarly, to remain a member of the Federal Reserve System, we are required to hold a certain amount of capital stock, determined as either a percentage of the Bank's capital or as a percentage of total deposit liabilities. At both December 31, 2018 and December 31, 2017, we held \$403 million of Federal Reserve Bank of Atlanta stock. For the years ended December 31, 2018, 2017, and 2016, we recognized dividends related to Federal Reserve Bank of Atlanta stock of \$12 million, \$9 million, and \$8 million, respectively.

Parent Company Liquidity. Our primary measure of Parent Company liquidity is the length of time the Parent Company can meet its existing and forecasted obligations using its cash resources. We measure and manage this metric using forecasts from both normal and adverse conditions. Under adverse conditions, we measure how long the Parent Company can meet its capital and debt service obligations after experiencing material attrition of short-term unsecured funding and without the support of dividends from the Bank or access to the capital markets. Our ALCO and the Board have established risk limits against these metrics to manage the Parent Company's liquidity by structuring its net maturity schedule to minimize the amount of debt maturing within a short period of time. A majority of the Parent Company's liabilities are long-term in nature, coming from the proceeds of issuances of our capital securities and long-term senior and subordinated notes. See the "Borrowings" section of this MD&A as well as Note 13, "Borrowings and Contractual Commitments," to the Consolidated Financial Statements in this Form 10-K for further information regarding our debt.

We manage the Parent Company to maintain most of its liquid assets in cash and securities that it can quickly convert into cash. Unlike the Bank, it is not typical for the Parent Company to maintain a material investment portfolio of publicly traded securities. We manage the Parent Company cash balance to provide sufficient liquidity to fund all forecasted obligations (primarily debt and capital service) for an extended period of months in accordance with our risk limits.

The primary uses of Parent Company liquidity include debt service, dividends on capital instruments, the periodic purchase of investment securities, loans to our subsidiaries, and common share repurchases. See further details of the authorized common share repurchases in the "Capital Resources" section of this MD&A and in Part II, Item 5 of this Form 10-K. We fund corporate dividends with Parent Company cash, the primary sources of which are dividends from our banking subsidiary and proceeds from the issuance of debt and capital securities. We are subject to both state and federal banking regulations that limit our ability to pay common stock dividends in certain circumstances. The Bank is also subject to federal and state laws and regulations that limit the amount of dividends it can pay to the

Parent Company, which could affect the Parent Company's ability to pay dividends to its shareholders.

Other Liquidity Considerations. As presented in Table 26, we had an aggregate potential obligation of \$93.0 billion to our clients in unused lines of credit at December 31, 2018. Commitments to extend credit are arrangements to lend to clients who have complied with predetermined contractual obligations. We also had \$2.9 billion in letters of credit outstanding at December 31, 2018, most of which are standby letters of credit, which require that we provide funding if certain future events occur. Approximately \$155 million of these letters were available to support variable rate demand obligations at December 31, 2018. Unused commercial lines of credit increased since December 31, 2017, driven by an increase in commercial line of credit commitments during the year ended December 31, 2018. Unused CRE lines of credit also increased since December 31, 2017, driven primarily by an increase in CRE line of credit commitments during the year ended December 31, 2018.

Unfunded Lending Commitments**Table 26**

(Dollars in millions)	As of		Average for the Three Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Unused lines of credit:				
Commercial	\$63,779	\$59,625	\$63,590	\$59,120
Residential mortgage commitments ¹	2,739	3,036	3,258	3,556
Home equity lines	10,338	10,086	10,269	10,101
CRE ²	5,307	4,139	4,921	3,963
Credit card	10,852	10,533	10,726	10,488
Total unused lines of credit	\$93,015	\$87,419	\$92,764	\$87,228

Letters of credit:

Financial standby	\$2,769	\$2,453	\$2,905	\$2,633
Performance standby	102	125	101	121
Commercial	38	14	38	16
Total letters of credit	\$2,909	\$2,592	\$3,044	\$2,770

¹ Includes residential mortgage IRLCs with notional balances of \$992 million and \$1.7 billion at December 31, 2018 and 2017, respectively.

² Includes commercial mortgage IRLCs and other commitments with notional balances of \$360 million and \$240 million at December 31, 2018 and 2017, respectively.

Other Market Risk

Other sources of market risk include the risk associated with holding loans, securities designated for sale, and mortgage loan commitments, as well as the risk associated with our investment in servicing rights. We manage the risks associated with mortgage LHFS and our IRLCs on mortgage loans intended for sale. The mortgage LHFS and IRLCs consist of fixed and adjustable rate residential and commercial mortgage loans. The risk associated with mortgage LHFS and IRLCs is the potential change in interest rates between the time the customer locks the rate on the anticipated loan and the time the loan is sold, which is typically 30-150 days.

We manage interest rate risk predominantly with interest rate swaps, futures, and forward sale agreements, where the changes in value of the instruments substantially offset the changes in value of mortgage LHFS and IRLCs. IRLCs on mortgage loans intended for sale are classified as derivative instruments and are not designated for hedge accounting purposes.

All servicing rights are initially measured at fair value by calculating the present value of future net cash flows that are expected to be received from the associated servicing portfolio. The initial value of servicing rights is highly dependent upon the assumed prepayment speed of the servicing portfolio, which is driven by the level of certain key interest rates, primarily the current 30-year mortgage rate. Future expected net cash flows from servicing a loan in the servicing portfolio would not be realized if the loan pays off earlier than anticipated.

We measure our residential MSRMs at fair value on a recurring basis and hedge the risk associated with changes in fair value. Residential MSRMs totaled \$2.0 billion and \$1.7 billion at December 31, 2018 and 2017, respectively, and are managed and monitored as part of a comprehensive risk governance process, which includes established risk limits. We originated residential MSRMs with fair values at the time of origination of \$336 million and \$394 million during 2018 and 2017, respectively. Additionally, we purchased residential MSRMs with a fair value of approximately \$89 million during the year

ended December 31, 2018. No residential MSRMs were purchased during the year ended December 31, 2017.

We recognized mark-to-market decreases in the fair value of residential MSRMs of \$149 million and \$248 million during 2018 and 2017, respectively. Changes in fair value include the UPB decay resulting from the realization of monthly net servicing cash flows as well as credit decay resulting from shifts in the delinquency status of the underlying loans. We recognized net losses on residential MSRMs, inclusive of fair value changes and related hedges, of \$249 million and \$212 million during 2018 and 2017, respectively. Compared to the prior year, the increase in net losses on residential MSRMs was primarily driven by a decrease in net hedge performance combined with higher decay

in the current period. All other servicing rights, which include commercial mortgage servicing rights, are not measured at fair value on a recurring basis, and therefore, are not subject to the same market risks associated with residential MSRs.

We held a total net book value of approximately \$68 million and \$22 million of non-public equity exposures (direct investments) and other equity-related investments at December 31, 2018 and 2017, respectively. We generally hold these investments as long-term investments. If conditions in the market deteriorate, these long-term investments and other assets could incur impairment charges.

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in certain activities that are not reflected in our Consolidated Balance Sheets, generally referred to as “off-balance sheet arrangements.” These activities involve transactions with unconsolidated VIEs as well as other arrangements, such as commitments and guarantees, to meet the financing needs of our clients and to support ongoing operations. Additional information regarding these types of activities is included in the “Liquidity Risk Management” section of this MD&A, as well as in Note 12, “Certain Transfers of Financial Assets and Variable Interest Entities,” Note 13, “Borrowings and Contractual Commitments,” and Note 18,

“Guarantees,” to the Consolidated Financial Statements in this Form 10-K.

Contractual Obligations

In the normal course of business, we enter into certain contractual obligations, including obligations to make future payments on our borrowings, tax credit investments, and lease arrangements, as well as commitments to lend to clients and to fund capital expenditures and service contracts. Table 27 presents our significant contractual obligations at December 31, 2018, except for UTBs (discussed below), short-term borrowings (presented in the “Borrowings” section of this MD&A), and pension and other postretirement benefit plans (disclosed in Note 17, “Employee Benefit Plans,” to the Consolidated Financial Statements in this Form 10-K). For additional information regarding our unfunded lending commitments, time deposits,

operating leases, tax credit investments, and long-term debt, refer to the “Liquidity Risk Management” and “Deposits” sections of this MD&A, as well as Note 9, “Premises, Property, and Equipment,” Note 12, “Certain Transfers of Financial Assets and Variable Interest Entities,” and Note 13, “Borrowings and Contractual Commitments,” to the Consolidated Financial Statements in this Form 10-K.

At December 31, 2018, we had UTBs of \$145 million, which represent a reserve for tax positions that we have taken or expect to be taken in our tax returns, and which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future tax settlements are uncertain, UTBs have been excluded from Table 27. See additional discussion in Note 16, “Income Taxes,” to the Consolidated Financial Statements in this Form 10-K.

	Table 27				
	Payments Due by Period at December 31, 2018				
(Dollars in millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Unfunded lending commitments	\$26,122	\$20,165	\$37,099	\$12,538	\$95,924
Consumer and other time deposits ¹	7,781	4,020	1,281	2,273	15,355
Brokered time deposits ¹	168	479	346	52	1,045
Long-term debt ^{1,2}	1,818	4,187	3,891	5,200	15,096
Operating leases	204	381	319	585	1,489
Purchase obligations ³	249	297	122	244	912
Commitments to fund tax credit investments ⁴	702	—	—	—	702
Total	\$37,044	\$29,529	\$43,058	\$20,892	\$130,523

¹ Amounts do not include interest.

² Amounts do not include deduction of related debt issuance costs of \$24 million.

³ For legally binding purchase obligations of \$5 million or more, amounts include either termination fees under the associated contracts when early termination provisions exist, or the total potential obligation over the full contractual term for noncancelable purchase obligations. Payments made towards the purchase of goods or services under these contracts totaled \$499 million in 2018.

⁴ Commitments to fund investments in affordable housing and other partnerships do not have defined funding dates as certain criteria must be met before we are obligated to fund. Accordingly, these commitments are considered to be due on demand for presentation purposes. See Note 12, “Certain Transfers of Financial Assets and Variable Interest Entities,” to the Consolidated Financial Statements in this Form 10-K for additional information.

BUSINESS SEGMENT RESULTS*Year Ended December 31, 2018 versus 2017***Consumer**

Consumer reported net income of \$1.5 billion for the year ended December 31, 2018, an increase of \$516 million, or 55%, compared to 2017. The increase was driven primarily by higher net interest income and lower provisions for credit losses and income taxes, offset partially by lower noninterest income and higher noninterest expense.

Net interest income was \$4.2 billion, an increase of \$329 million, or 8%, compared to 2017, driven by improved spreads on deposit balances. Net interest income related to deposits increased \$322 million, or 14%, driven by a 25 basis point increase in deposit spreads and a \$1.9 billion, or 2%, increase in average deposit balances. Deposit balance growth was driven by increases in commercial and consumer DDAs, checking, and CD balances, offset partially by lower money market account balances. Net interest income related to LHFI increased \$27 million, or 2%, driven primarily by a \$1.8 billion, or 3%, increase in average LHFI balances, offset partially by a two basis point decrease in loan spreads. Consumer loan growth was driven by increases in residential mortgages, consumer direct, indirect, and guaranteed student loans, offset partially by declines in home equity products and personal credit lines.

Provision for credit losses was \$148 million, a decrease of \$218 million, or 60%, compared to 2017. The decrease was driven by lower net charge-offs, improved credit quality, and the release of hurricane-related ALLL reserves.

Total noninterest income was \$1.8 billion, a decrease of \$101 million, or 5%, compared to 2017. The decrease was driven primarily by lower mortgage related income and lower client transaction-related fee income (which includes service charges on deposit accounts, other charges and fees, and card fees), offset partially by increases in retail investment services and other noninterest income. The decline in client transaction-related fee income was due primarily to the impact of our adoption of the revenue recognition accounting standard on January 1, 2018 and by a change in our process for recognizing card rewards expenses in third quarter of 2018.

Total noninterest expense was \$4.0 billion, an increase of \$35 million, or 1%, compared to the same period in 2017. The increase was driven primarily by higher outside processing and software costs due to investments in technology and process optimization during 2018 and by favorable developments with certain legal matters in the fourth quarter of 2017, offset partially by revenue recognition accounting impacts and branch network activity in the current period.

Wholesale

Wholesale reported net income of \$1.5 billion for the year ended December 31, 2018, an increase of \$303 million, or 24%, compared to 2017. The increase was due to lower provision for income taxes, higher net interest income, and lower noninterest expense, offset partially by lower noninterest income and higher provision for credit losses.

Net interest income was \$2.3 billion, an increase of \$99 million, or 5%, compared to 2017, driven primarily by increases in loan volume and improved deposit and equity spreads, offset partially by lower loan spreads and declines in deposit volume.

Net interest income related to deposits increased \$112 million, or 14%, as a result of improved spreads, offset partially by decreased deposit volumes. Average deposit balances decreased \$1.5 billion, or 3%, as a result of decreases in money market accounts and non-interest-bearing commercial DDAs, offset partially by increases in interest-bearing commercial DDAs and business CD products. Net interest income related to LHFI decreased \$52 million, or 4%, as a result of lower tax exempt loan and lease spreads, which were specifically impacted by the 2017 Tax Act. Average LHFI increased \$806 million, or 1%, primarily as a result of client activity in Commercial Real Estate. Net interest income related to equity increased \$53 million, or 31%, due to higher equity balances and spreads.

Provision for credit losses was \$60 million, an increase of \$21 million, or 54%, compared to 2017, driven primarily by increases in loan balances.

Total noninterest income was \$1.5 billion, a decrease of \$39 million, or 2%, compared to 2017. The decrease was driven largely by lower investment banking income, which decreased \$24 million, or 4%, as a result of lower loan syndication, investment grade bond, and high yield bond fees, offset partially by higher mergers and acquisitions and equity origination fees. Trading income was down \$8 million, or 5%, as a result of lower client-related derivative activity. These decreases were offset partially by \$30 million of remeasurement gains on an equity investment following our adoption of the recognition and measurement of financial assets accounting standard on January 1, 2018 and a \$11 million, or 9%, increase in commercial real estate related income as a result of higher structured real estate

gains.

Total noninterest expense was \$1.7 billion, a decrease of \$7 million compared to 2017. The decrease was due to lower incentive related compensation, offset partially by higher investment banking transaction expenses related to the impact of our adoption of the revenue recognition accounting standard on January 1, 2018.

Corporate Other

Corporate Other net income was a net loss of \$37 million for the year ended December 31, 2018, a decrease of \$332 million compared to 2017. The decrease in net income was due primarily to lower net interest income.

Net interest income was a net expense of \$188 million, a decrease of \$205 million compared to 2017. The decrease was driven primarily by lower commercial loan-related swap income due to higher benchmark interest rates. Average long-term debt increased \$838 million, or 8%, and average short-term borrowings increased \$949 million, or 50%, driven by balance sheet management activities.

Total noninterest income was \$57 million, a decrease of \$16 million, or 22%, compared to 2017. The decrease was driven primarily by a decline in trading income, which decreased \$21 million, or 91%.

Total noninterest expense was a benefit of \$42 million for the year ended December 31, 2018. The benefit increased \$116 million compared to 2017. The increase was due primarily to a net occupancy credit triggered by the early termination of a tenant's lease and credits for excess cash reserves recognized in

2018, as well as the tax reform-related charitable contribution in the fourth quarter of 2017 to support financial well-being initiatives.

Year Ended December 31, 2017 versus 2016

Consumer

Consumer reported net income of \$934 million for the year ended December 31, 2017, a decrease of \$80 million, or 8%, compared 2016. The decrease was driven primarily by lower noninterest income, higher provision for credit losses, and higher noninterest expense, offset partially by higher net interest income and lower provision for income taxes.

Net interest income was \$3.9 billion, an increase of \$270 million, or 7%, compared to 2016, driven by improved spreads on deposit balances and growth in LHFI balances. Net interest income related to deposits increased \$228 million, or 11%, driven by a 14 basis point increase in deposit spreads and a \$3.9 billion, or 4%, increase in average deposit balances. Deposit balance growth was driven primarily by increases in checking and money market account balances. Net interest income related to LHFI increased \$53 million, or 4%, driven by a \$3.1 billion, or 4%, increase in average LHFI balances, offset partially by a two basis point decrease in loan spreads. Average LHFI growth was driven by increases in residential mortgages, consumer direct, indirect, guaranteed student loans, and commercial loans, offset partially by declines in home equity products.

Provision for credit losses was \$366 million, an increase of \$207 million compared to 2016. The increase was driven by higher reserves held for hurricane-related losses in 2017.

Total noninterest income was \$1.9 billion, a decrease of \$162 million, or 8%, compared to 2016. The decrease was driven primarily by lower mortgage related income due to reduced refinancing activity and lower service charges on deposits due to the enhanced posting order process instituted during the fourth quarter of 2016.

Total noninterest expense was \$4.0 billion, an increase of \$44 million, or 1%, compared to 2016. The increase was driven by increased investments in technology and marketing, corporate support costs, and net occupancy expense related to branch network activity, offset partially by favorable developments with certain legal matters in the fourth quarter of 2017.

Wholesale

Wholesale reported net income of \$1.2 billion for the year ended December 31, 2017, an increase of \$313 million, or 34%, compared to 2016. The increase was due to higher net interest income, noninterest income, and lower provision for credit losses, offset partially by higher noninterest expense.

Net interest income was \$2.2 billion, an increase of \$223 million, or 11%, compared to 2016, driven primarily by higher average deposit balances and improved loan and deposit spreads. Net interest income related to deposits increased \$131 million, or 20%, as a result of higher benchmark interest rates and higher average deposit balances. Average deposit balances increased

\$1.4 billion, or 3%, driven primarily by a \$3.1 billion increase in interest-bearing transaction accounts and a \$698 million increase in CD balances, offset largely by a \$1.4 billion decrease in money market accounts and a \$1.1 billion decrease in non-interest-bearing commercial DDAs. Although average LHFI was relatively flat, net interest income growth related to LHFI increased \$58 million, or 5%, as a result of improved loan spreads.

Provision for credit losses was \$39 million, a decrease of \$243 million, or 86%, compared to 2016. The decrease was due primarily to lower nonperforming loans and lower energy-related net charge-offs.

Total noninterest income was \$1.6 billion, an increase of \$248 million, or 19%, compared to 2016. The increase was driven primarily by higher investment banking income, which increased \$108 million, or 21%, fee income from Pillar of \$72 million, higher tax credits, and other loan related fees. These increases were offset partially by declines in trading income and structured real estate gains.

Total noninterest expense was \$1.7 billion, an increase of \$220 million, or 15%, compared to 2016. The increase was due primarily to the acquisition of Pillar in 2016, higher employee compensation expense attributable to improved business performance and ongoing investments in talent, as well as higher amortization expense associated with STCC tax credit investments, partially offset by lower operating losses.

Corporate Other

Corporate Other net income was \$295 million for the year ended December 31, 2017, an increase of \$116 million, or 65%, compared to 2016. The increase was due primarily to lower provision for income taxes in 2017 as a result of Form 8-K and tax reform-related items.

Net interest income was \$17 million, a decrease of \$145 million, or 90%, compared to 2016. The decrease was driven primarily by lower commercial loan-related swap income due to higher LIBOR rates. Average long-term debt increased \$154 million, or 2%, and average short-term borrowings increased \$344 million, or 22%, driven by balance sheet management activities.

Total noninterest income was \$73 million, a decrease of \$64 million, or 47%, compared to 2016. The decrease was due to the \$109 million securities AFS portfolio restructuring loss and a gain on the sale-leaseback of one of our office buildings in the second quarter of 2016, partially offset by the \$107 million gain on sale of PAC.

Total noninterest expense was \$74 million, an increase of \$36 million, or 95%, compared to 2016, driven primarily by higher severance costs in 2017.

See Note 22, "Business Segment Reporting," to the Consolidated Financial Statements in this Form 10-K for a description of our business segments, basis of presentation, internal management reporting methodologies, and additional information.

FOURTH QUARTER 2018 RESULTS

Fourth Quarter Consolidated Statements of Income

Table 28

	Three Months Ended		Increase/(Decrease)		
	December 31 2018	2017	Amount	% ¹	
(Dollars in millions, except per share data)					
Interest income	\$1,944	\$1,640	\$304	19	%
Interest expense	397	206	191	93	
NET INTEREST INCOME	1,547	1,434	113	8	
Provision for credit losses	87	79	8	10	
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	1,460	1,355	105	8	
NONINTEREST INCOME					
Service charges on deposit accounts	146	150	(4)	(3))
Other charges and fees ²	92	91	1	1	
Card fees	83	88	(5)	(6))
Investment banking income ²	146	122	24	20	
Trading income	24	41	(17)	(41))
Mortgage related income ³	85	104	(19)	(18))
Trust and investment management income	74	80	(6)	(8))
Retail investment services	74	70	4	6	
Commercial real estate related income	68	62	6	10	
Net securities gains/(losses)	—	(109)	109	(100))
Gain on sale of subsidiary	—	107	(107)	(100))
Other noninterest income	26	27	(1)	(4))
Total noninterest income	818	833	(15)	(2))
NONINTEREST EXPENSE					
Employee compensation	737	702	35	5	
Employee benefits	120	101	19	19	
Outside processing and software	242	214	28	13	
Net occupancy expense	102	97	5	5	
Marketing and customer development	49	104	(55)	(53))
Equipment expense	42	41	1	2	
Regulatory assessments	7	43	(36)	(84))
Operating losses	39	23	16	70	
Amortization	22	25	(3)	(12))
Consulting and legal fees	20	22	(2)	(9))
Other staff expense	14	46	(32)	(70))
Other noninterest expense	88	102	(14)	(14))
Total noninterest expense	1,482	1,520	(38)	(3))
INCOME BEFORE PROVISION/(BENEFIT) FOR INCOME TAXES	796	668	128	19	
Provision/(benefit) for income taxes	136	(74)	210	NM	
NET INCOME INCLUDING INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	660	742	(82)	(11))
Less: Net income attributable to noncontrolling interest	2	2	—	—	
NET INCOME	658	740	(82)	(11))
Less: Preferred stock dividends	26	30	(4)	(13))
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$632	\$710	(\$78)	(11))%
Net interest income-FTE ⁴	\$1,570	\$1,472	\$98	7	%

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Net income per average common share:

Diluted	1.40	1.48	(0.08)	(5)
Basic	1.41	1.50	(0.09)	(6)

¹ "NM" - Not meaningful. Those changes over 100 percent were not considered to be meaningful.

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

³ Beginning with this Form 10-K, we began presenting Mortgage production related income and Mortgage servicing related income as a single line item on the Consolidated Statements of Income titled Mortgage related income. Prior periods have been conformed to this updated presentation for comparability.

⁴ See Table 29, "Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures," in this MD&A for additional information and reconciliations of non-U.S. GAAP performance measures.

Quarter Ended December 31, 2018 vs. Quarter Ended December 31, 2017

We reported net income available to common shareholders of \$632 million in the fourth quarter of 2018, a decrease of \$78 million, or 11%, compared to the same period in 2017. Earnings per average common diluted share were \$1.40 for the fourth quarter of 2018, compared to \$1.48 for the fourth quarter of 2017. The current quarter included \$(0.10) per average common share related to the \$60 million pre-tax NCF Retirement Plan settlement charge. The prior year quarter was favorably impacted by \$0.39 per share of net discrete benefits in connection with Form 8-K and tax reform-related items.

In the fourth quarter of 2018, net interest income was \$1.6 billion, an increase of \$98 million, or 7%, compared to the same period in 2017. The increase was driven by a 10 basis point expansion in net interest margin and a \$6.4 billion increase in average earning assets. Net interest margin increased to 3.27%, driven primarily by higher earning asset yields, offset partially by higher funding costs.

The provision for credit losses was \$87 million in the fourth quarter of 2018, an increase of \$8 million compared to the same period in 2017, due primarily to loan growth.

Total noninterest income was \$818 million in the fourth quarter of 2018, a decrease of \$15 million compared to the same period in 2017, driven primarily by lower mortgage related income.

Client transaction-related fee income, which includes service charges on deposit accounts, other charges and fees, and card fees, was \$321 million in the fourth quarter of 2018, a decrease of \$8 million compared to the same period in 2017. This decrease was due primarily to the impact of adopting the revenue recognition accounting standard, which resulted in the netting of certain expense items against this income.

Investment banking income was \$146 million in the fourth quarter of 2018, an increase of \$24 million compared to the same period in 2017, due primarily to higher transaction activity in mergers and acquisitions and loan syndications, offset partially by lower transactional activity in high yield bond originations and equity offerings.

Trading income was \$24 million in the fourth quarter of 2018, a decrease of \$17 million compared to the same period in 2017, due primarily to mark-to-market valuation losses resulting from adverse market conditions and higher counterparty credit valuation reserves in the current quarter.

Mortgage related income was \$85 million in the fourth quarter of 2018, a decrease of \$19 million compared to the same period in 2017, driven by a \$25 million decrease in mortgage production related income, offset partially by a \$6 million increase in mortgage servicing related income. The decrease in mortgage production related income was due to lower production volume and lower gain on sale margins, offset partially by a repurchase reserve release during the current quarter. The increase in mortgage servicing related income was due primarily to higher servicing fees, offset partially by lower net hedge performance.

Trust and investment management income was \$74 million in the fourth quarter of 2018, a decrease of \$6 million compared to the same period in 2017, due to trust termination fees received during the fourth quarter of 2017.

Retail investment services income was \$74 million in the fourth quarter of 2018, an increase of \$4 million compared to the same period in 2017, due primarily to higher assets under management.

Commercial real estate related income was \$68 million in the fourth quarter of 2018, an increase of \$6 million compared to the fourth quarter of 2017, driven primarily by higher client-driven structured real estate transactional activity during the current quarter.

There were no net securities gains/(losses) recognized in the fourth quarter of 2018. In the fourth quarter of 2017, we recognized net securities losses of \$109 million as a result of a restructuring of the securities AFS portfolio in response to the 2017 Tax Act.

Gain on sale of subsidiary totaled \$107 million for the fourth quarter of 2017, resulting from our gain from the sale of PAC. See Note 3, "Acquisitions/Dispositions," to the Consolidated Financial Statements in this Form 10-K for additional information regarding the sale of PAC.

Total noninterest expense was \$1.5 billion in the fourth quarter of 2018, a decrease of \$38 million compared to the same period in 2017. The decrease was due primarily to the net impact of \$111 million related to Form 8-K and tax reform-related items recognized in the fourth quarter of 2017.

Personnel expense was \$857 million in the fourth quarter of 2018, an increase of \$54 million compared to the same period in 2017, due primarily to the \$60 million pre-tax NCF Retirement Plan settlement charge recognized in the

fourth quarter of 2018.

Outside processing and software expense was \$242 million in the fourth quarter of 2018, an increase of \$28 million compared to the same period in 2017, driven primarily by higher software-related costs resulting from the amortization of new and upgraded technology assets.

Marketing and customer development expense was \$49 million in the fourth quarter of 2018, a decrease of \$55 million compared to the same period in 2017, due primarily to the \$50 million tax reform-related charitable contribution in the fourth quarter of 2017 to support financial well-being initiatives.

Regulatory assessments expense was \$7 million in the fourth quarter of 2018, a decrease of \$36 million compared to the same period in 2017. The decrease in regulatory assessments expense was driven by the cessation of the FDIC surcharge and a \$9 million regulatory assessment credit in the current quarter.

Operating losses totaled \$39 million in the fourth quarter of 2018, an increase of \$16 million compared to the same period in 2017, due primarily to higher legal and fraud-related expenses.

Other staff expense was \$14 million, a decrease of \$32 million compared to the same period in 2017, driven primarily by higher severance costs recognized during the second half of 2017, largely in connection with the voluntary early retirement program announced in our December 4, 2017 Form 8-K.

Other noninterest expense was \$88 million in the fourth quarter of 2018, a decrease of \$14 million compared to the same period in 2017. The decrease was driven primarily by lower branch and corporate real estate closure costs and lower software writedowns in the current quarter.

In the fourth quarter of 2018, we recorded a provision for income taxes of \$136 million compared to a benefit of \$74 million in the fourth quarter of 2017. The tax provision for the current quarter included \$10 million of discrete tax benefits. The tax provision for the fourth quarter of 2017 was impacted by a \$303 million income tax benefit for the remeasurement of our December 31, 2017 DTAs and DTLs and other tax reform-

related items due to the enactment of the 2017 Tax Act. The effective tax rate for the fourth quarter of 2018 was 17% compared to (11)% in the fourth quarter of 2017. In addition to the discrete items noted above, the year-over-year change in the effective tax rate was also impacted by the reduction in the U.S. federal corporate income tax rate from 35% to 21%.

Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures

Table
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<u>Selected Quarterly Financial Data</u>	Three Months Ended							
	2018				2017			
(Dollars in millions and shares in thousands, except per share data)	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
Summary of Operations:								
Interest income	\$1,944	\$1,834	\$1,759	\$1,668	\$1,640	\$1,635	\$1,583	\$1,528
Interest expense	397	322	271	227	206	205	180	162
Net interest income	1,547	1,512	1,488	1,441	1,434	1,430	1,403	1,366
Provision for credit losses	87	61	32	28	79	120	90	119
Net interest income after provision for credit losses	1,460	1,451	1,456	1,413	1,355	1,310	1,313	1,247
Noninterest income	818	782	829	796	833	846	827	847
Noninterest expense	1,482	1,384	1,390	1,417	1,520	1,391	1,388	1,465
Income before provision/(benefit) for income taxes	796	849	895	792	668	765	752	629
Provision/(benefit) for income taxes	136	95	171	147	(74)	225	222	159
Net income attributable to noncontrolling interest	2	2	2	2	2	2	2	2
Net income	\$658	\$752	\$722	\$643	\$740	\$538	\$528	\$468
Net income available to common shareholders	\$632	\$726	\$697	\$612	\$710	\$512	\$505	\$451
Net interest income-FTE ¹	\$1,570	\$1,534	\$1,510	\$1,461	\$1,472	\$1,467	\$1,439	\$1,400
Total revenue	2,365	2,294	2,317	2,237	2,267	2,276	2,230	2,213
Total revenue-FTE ¹	2,388	2,316	2,339	2,257	2,305	2,313	2,266	2,247
Net securities gains/(losses)	—	—	—	1	(109)	—	1	—
Net income per average common share:								
Diluted	\$1.40	\$1.56	\$1.49	\$1.29	\$1.48	\$1.06	\$1.03	\$0.91
Basic	1.41	1.58	1.50	1.31	1.50	1.07	1.05	0.92
Dividends declared per common share	0.50	0.50	0.40	0.40	0.40	0.40	0.26	0.26
Book value per common share	49.57	48.00	47.70	47.14	47.94	47.16	46.51	45.62
Tangible book value per common share ²	35.73	34.51	34.40	33.97	34.82	34.34	33.83	33.05
Market capitalization	22,541	30,632	30,712	31,959	30,417	28,451	27,319	26,860
Market price per common share (NYSE trading symbol "STI"):								
High	\$67.98	\$75.08	\$71.14	\$73.37	\$66.62	\$60.04	\$58.75	\$61.69
Low	46.05	65.82	65.08	64.32	56.30	51.96	52.69	52.71
Close	50.44	66.79	66.02	68.04	64.59	59.77	56.72	55.30
Selected Average Balances:								
Total assets	\$212,934	\$207,395	\$204,548	\$204,132	\$205,219	\$205,738	\$204,494	\$204,252
Earning assets	190,742	186,344	184,566	182,874	184,306	184,861	184,057	183,606
LHFI	149,708	145,995	144,156	142,920	144,039	144,706	144,440	143,670
Intangible assets including residential MSR's	8,491	8,396	8,355	8,244	8,077	8,009	8,024	8,026
Residential MSR's	2,083	1,987	1,944	1,833	1,662	1,589	1,603	1,604
Consumer and commercial deposits	161,573	159,348	158,957	159,169	160,745	159,419	159,136	158,874
Preferred stock	2,025	2,025	2,025	2,390	2,236	1,975	1,720	1,225
Total shareholders' equity	23,873	24,275	24,095	24,605	24,806	24,573	24,139	23,671
Average common shares - diluted	452,957	464,164	469,339	473,620	480,359	483,640	488,020	496,002
Average common shares - basic	449,404	460,252	465,529	468,723	474,300	478,258	482,913	490,091
Financial Ratios (Annualized):								
ROA	1.23	% 1.44	% 1.42	% 1.28	% 1.43	% 1.04	% 1.03	% 0.93
ROE	11.54	13.01	12.73	11.23	12.54	9.03	9.08	8.19
ROTCE ³	16.13	18.06	17.74	15.60	17.24	12.45	12.51	11.28

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Net interest margin	3.22	3.22	3.23	3.20	3.09	3.07	3.06	3.02
Net interest margin-FTE ¹	3.27	3.27	3.28	3.24	3.17	3.15	3.14	3.09
Efficiency ratio ⁴	62.66	60.34	59.98	63.35	67.03	61.12	62.24	66.20
Efficiency ratio-FTE ^{1,4}	62.06	59.76	59.41	62.77	65.94	60.14	61.24	65.19
Tangible efficiency ratio-FTE ^{1,4,5}	61.13	58.94	58.69	62.11	64.84	59.21	60.59	64.60
Adjusted tangible efficiency ratio-FTE ^{1,4,5,6}	58.63	58.94	58.69	62.11	59.85	59.21	60.59	64.60
Total average shareholders' equity to total average assets	11.21	11.71	11.78	12.05	12.09	11.94	11.80	11.59
Tangible common equity to tangible assets ⁷	7.63	7.72	7.96	8.04	8.21	8.10	8.11	8.06
Common dividend payout ratio	35.3	31.6	26.7	30.6	26.8	37.2	24.8	28.3

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Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures**(continued)****Selected Quarterly Financial Data****(continued)**

	Three Months Ended								
	2018				2017				
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31	
Capital Ratios at period end ⁸:									
CET1	9.21 %	9.60 %	9.72 %	9.84 %	9.74 %	9.62 %	9.68 %	9.69 %	
Tier 1 capital	10.30	10.72	10.86	11.00	11.15	10.74	10.81	10.40	
Total capital	12.02	12.47	12.67	12.90	13.09	12.69	12.75	12.37	
Leverage	9.26	9.66	9.82	9.75	9.80	9.50	9.55	9.08	

Reconciliation of Non-U.S. GAAP Measures - Quarterly

(Dollars in millions, except per share data)	Three Months Ended									
	2018					2017				
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31		
Net interest margin	3.22 %	3.22 %	3.23 %	3.20 %	3.09 %	3.07 %	3.06 %	3.02 %		
Impact of FTE adjustment	0.05	0.05	0.05	0.04	0.08	0.08	0.08	0.07		
Net interest margin-FTE ¹	3.27 %	3.27 %	3.28 %	3.24 %	3.17 %	3.15 %	3.14 %	3.09 %		
Efficiency ratio ⁴	62.66 %	60.34 %	59.98 %	63.35 %	67.03 %	61.12 %	62.24 %	66.20 %		
Impact of FTE adjustment	(0.60)	(0.58)	(0.57)	(0.58)	(1.09)	(0.98)	(1.00)	(1.01)		
Efficiency ratio-FTE ^{1, 4}	62.06	59.76	59.41	62.77	65.94	60.14	61.24	65.19		
Impact of excluding amortization related to intangible assets and certain tax credits	(0.93)	(0.82)	(0.72)	(0.66)	(1.10)	(0.93)	(0.65)	(0.59)		
Tangible efficiency ratio-FTE ^{1, 4, 5}	61.13	58.94	58.69	62.11	64.84	59.21	60.59	64.60		
Impact of excluding NCF Retirement Plan settlement charge as well as Form 8-K and tax reform-related items	(2.50)	—	—	—	(4.99)	—	—	—		
Adjusted tangible efficiency ratio-FTE ^{1, 4, 5, 6}	58.63 %	58.94 %	58.69 %	62.11 %	59.85 %	59.21 %	60.59 %	64.60 %		
ROE	11.54 %	13.01 %	12.73 %	11.23 %	12.54 %	9.03 %	9.08 %	8.19 %		
Impact of removing average intangible assets other than residential MSRs and other servicing rights from average common shareholders' equity, and removing related pre-tax amortization expense from net income available to common shareholders	4.59	5.05	5.01	4.37	4.70	3.42	3.43	3.09		
ROTCE ³	16.13 %	18.06 %	17.74 %	15.60 %	17.24 %	12.45 %	12.51 %	11.28 %		
Net interest income	\$1,547	\$1,512	\$1,488	\$1,441	\$1,434	\$1,430	\$1,403	\$1,366		
FTE adjustment	23	22	22	20	38	37	36	34		
Net interest income-FTE ¹	1,570	1,534	1,510	1,461	1,472	1,467	1,439	1,400		
Noninterest income	818	782	829	796	833	846	827	847		
Total revenue-FTE ¹	\$2,388	\$2,316	\$2,339	\$2,257	\$2,305	\$2,313	\$2,266	\$2,247		
At										
	2018					2017				
(Dollars in millions, except per share data)	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31		
Total shareholders' equity	\$24,280	\$24,139	\$24,316	\$24,269	\$25,154	\$24,522	\$24,477	\$23,484		
Goodwill, net of deferred taxes ⁹	(6,171)	(6,171)	(6,172)	(6,172)	(6,168)	(6,084)	(6,085)	(6,086)		

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Other intangible assets (including residential MSRs and other servicing rights)	(2,062)	(2,140)	(2,036)	(1,996)	(1,791)	(1,706)	(1,689)	(1,729)
Residential MSRs and other servicing rights	2,049	2,126	2,022	1,981	1,776	1,690	1,671	1,711
Tangible equity ⁷	18,096	17,954	18,130	18,082	18,971	18,422	18,374	17,380
Noncontrolling interest	(103)	(101)	(103)	(101)	(103)	(101)	(103)	(101)
Preferred stock	(2,025)	(2,025)	(2,025)	(2,025)	(2,475)	(1,975)	(1,975)	(1,225)
Tangible common equity ⁷	\$15,968	\$15,828	\$16,002	\$15,956	\$16,393	\$16,346	\$16,296	\$16,054
Total assets	\$215,543	\$211,276	\$207,505	\$204,885	\$205,962	\$208,252	\$207,223	\$205,642
Goodwill	(6,331)	(6,331)	(6,331)	(6,331)	(6,331)	(6,338)	(6,338)	(6,338)
Other intangible assets (including residential MSRs and other servicing rights)	(2,062)	(2,140)	(2,036)	(1,996)	(1,791)	(1,706)	(1,689)	(1,729)
Residential MSRs and other servicing rights	2,049	2,126	2,022	1,981	1,776	1,690	1,671	1,711
Tangible assets	\$209,199	\$204,931	\$201,160	\$198,539	\$199,616	\$201,898	\$200,867	\$199,286
Tangible common equity to tangible assets ⁷	7.63	% 7.72	% 7.96	% 8.04	% 8.21	% 8.10	% 8.11	% 8.06
Tangible book value per common share ²	\$35.73	\$34.51	\$34.40	\$33.97	\$34.82	\$34.34	\$33.83	\$33.05

Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures (continued)**Reconciliation of Non-U.S. GAAP Measures - Annual**

(Dollars in millions, except per share data)

	Year Ended December 31					
	2018	2017	2016	2015	2014	
Net interest margin	3.22	% 3.06	% 2.92	% 2.82	% 2.98	%
Impact of FTE adjustment	0.04	0.08	0.08	0.09	0.09	
Net interest margin-FTE ¹	3.26	% 3.14	% 3.00	% 2.91	% 3.07	%
Efficiency ratio ⁴	61.58	% 64.14	% 63.55	% 64.24	% 67.90	%
Impact of FTE adjustment	(0.59)	) (1.02)	) (1.00)	) (1.11)	) (1.16))
Efficiency ratio-FTE ^{1,4}	60.99	63.12	62.55	63.13	66.74	
Impact of excluding amortization related to intangible assets and certain tax credits	(0.78)	) (0.82)	) (0.56)	) (0.49)	) (0.30))
Tangible efficiency ratio-FTE ^{1,4,5}	60.21	62.30	61.99	62.64	66.44	
Impact of excluding NCF Retirement Plan settlement charge, Form 8-K and tax reform-related items, as well as other legacy mortgage-related items	(0.65)	) (1.26)	) —	) —	) (3.10))
Adjusted tangible efficiency ratio-FTE ^{1,4,5,6,10}	59.56	% 61.04	% 61.99	% 62.64	% 63.34	%
ROE	12.13	% 9.72	% 7.97	% 8.46	% 8.10	%
Impact of removing average intangible assets other than residential MSRs and other servicing rights from average common shareholders' equity, and removing related pre-tax amortization expense from net income available to common shareholders	4.76	3.67	2.94	3.29	3.39	
ROTCE ³	16.89	% 13.39	% 10.91	% 11.75	% 11.49	%
Net interest income	\$5,987	\$5,633	\$5,221	\$4,764	\$4,840	
FTE adjustment	88	145	138	142	142	
Net interest income-FTE ¹	6,075	5,778	5,359	4,906	4,982	
Noninterest income	3,226	3,354	3,383	3,268	3,323	
Total revenue-FTE ¹	9,301	9,132	8,742	8,174	8,305	
Impact of excluding Form 8-K items	—	—	—	—	(105))
Total adjusted revenue-FTE ^{1,10}	\$9,301	\$9,132	\$8,742	\$8,174	\$8,200	
Net income available to common shareholders	\$2,668	\$2,179	\$1,811	\$1,863	\$1,722	
Impact of excluding Form 8-K and other items	—	—	—	—	7	
Adjusted net income available to common shareholders ¹⁰	\$2,668	\$2,179	\$1,811	\$1,863	\$1,729	
Noninterest income	\$3,226	\$3,354	\$3,383	\$3,268	\$3,323	
Impact of excluding Form 8-K items	—	—	—	—	(105))
Adjusted noninterest income ¹⁰	\$3,226	\$3,354	\$3,383	\$3,268	\$3,218	
Noninterest expense	\$5,673	\$5,764	\$5,468	\$5,160	\$5,543	
Impact of excluding Form 8-K and other items	—	—	—	—	(324))
Adjusted noninterest expense ¹⁰	\$5,673	\$5,764	\$5,468	\$5,160	\$5,219	
Diluted net income per average common share	\$5.74	\$4.47	\$3.60	\$3.58	\$3.23	
Impact of excluding Form 8-K and other items	—	—	—	—	0.01	
Adjusted diluted net income per average common share ¹⁰	\$5.74	\$4.47	\$3.60	\$3.58	\$3.24	

At December 31

(Dollars in millions, except per share data)

	2018	2017	2016	2015	2014
Total shareholders' equity	\$24,280	\$25,154	\$23,618	\$23,437	\$23,005
Goodwill, net of deferred taxes ⁹	(6,171)	) (6,168)	) (6,086)	) (6,097)	) (6,123)
Other intangible assets (including residential MSRs and other servicing rights)	(2,062)	) (1,791)	) (1,657)	) (1,325)	) (1,219)
Residential MSRs and other servicing rights	2,049	1,776	1,638	1,316	1,206
Tangible equity ⁷	18,096	18,971	17,513	17,331	16,869
Noncontrolling interest	(103)	) (103)	) (103)	) (108)	) (108)
Preferred stock	(2,025)	) (2,475)	) (1,225)	) (1,225)	) (1,225)
Tangible common equity ⁷	\$15,968	\$16,393	\$16,185	\$15,998	\$15,536
Total assets	\$215,543	\$205,962	\$204,875	\$190,817	\$190,328

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Goodwill	(6,331)	(6,331)	(6,337)	(6,337)	(6,337)
Other intangible assets (including residential MSRs and other servicing rights)	(2,062)	(1,791)	(1,657)	(1,325)	(1,219)
Residential MSRs and other servicing rights	2,049	1,776	1,638	1,316	1,206
Tangible assets	\$209,199	\$199,616	\$198,519	\$184,471	\$183,978
Tangible common equity to tangible assets ⁷	7.63 %	8.21 %	8.15 %	8.67 %	8.44 %
Tangible book value per common share ²	\$35.73	\$34.82	\$32.95	\$31.45	\$29.62

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Selected Financial Data and Reconciliation of Non-U.S. GAAP Measures (continued)

Reconciliation of PPNR ¹¹

(Dollars in millions)	Year Ended December 31, 2018
Income before provision for income taxes	\$3,332
Provision for credit losses	208
Less:	
Net securities gains	1
PPNR	\$3,539

We present Net interest income-FTE, Total revenue-FTE, Net interest margin-FTE, Efficiency ratio-FTE, Tangible efficiency ratio-FTE, Adjusted tangible efficiency ratio-FTE, and Total adjusted revenue-FTE on a fully taxable-equivalent ("FTE") basis. The FTE basis adjusts for the tax-favored status of Net interest income from certain loans and investments using a federal tax rate of 21% for all periods beginning on or after January 1, 2018 and 35% for all periods ¹ prior to January 1, 2018, as well as state income taxes, where applicable, to increase tax-exempt interest income to a taxable-equivalent basis. We believe the FTE basis is the preferred industry measurement basis for these measures and that it enhances comparability of Net interest income arising from taxable and tax-exempt sources. Total revenue-FTE is calculated as Net interest income-FTE plus Noninterest income. Net interest margin-FTE is calculated by dividing annualized Net interest income-FTE by average Total earning assets.

We present Tangible book value per common share, which removes the after-tax impact of purchase accounting intangible assets, noncontrolling interest, and ² preferred stock from shareholders' equity. We believe this measure is useful to investors because, by removing the amount of intangible assets that result from merger and acquisition activity, and removing the amounts of noncontrolling interest and preferred stock that do not represent our common shareholders' equity, it allows investors to more easily compare our capital position to other companies in the industry.

We present ROTCE, which removes the after-tax impact of purchase accounting intangible assets from average common shareholders' equity and removes the ³ related intangible asset amortization from Net income available to common shareholders. We believe this measure is useful to investors because, by removing the amount of intangible assets that result from merger and acquisition activity and related pre-tax amortization expense (the level of which may vary from company to company), it allows investors to more easily compare our ROTCE to other companies in the industry who present a similar measure. We also believe that removing these items provides a more relevant measure of our Return on average common shareholders' equity. This measure is utilized by management to assess our profitability.

⁴ Efficiency ratio is computed by dividing Noninterest expense by Total revenue. Efficiency ratio-FTE is computed by dividing Noninterest expense by Total revenue-FTE.

We present Tangible efficiency ratio-FTE and Adjusted tangible efficiency ratio-FTE, which exclude amortization related to intangible assets and certain tax ⁵ credits. We believe these measures are useful to investors because, by removing the impact of amortization (the level of which may vary from company to company), it allows investors to more easily compare our efficiency to other companies in the industry. Tangible efficiency ratio-FTE is utilized by management to assess our efficiency and that of our lines of business.

We present Adjusted tangible efficiency ratio-FTE, which excludes the \$60 million pre-tax impact of the NCF Retirement Plan settlement charge recognized in ⁶ the fourth quarter of 2018 as well as Form 8-K and tax reform-related items recognized in the fourth quarter of 2017. We believe this measure is useful to investors because it removes the effect of material items impacting the periods' results and is more reflective of normalized operations as it reflects results that are primarily client relationship and client transaction driven. Removing these items also allows investors to compare our results to other companies in the industry that may not have had similar items impacting their results. Additional detail on these items can be found in Note 17, "Employee Benefit Plans," to the Consolidated Financial Statements in this Form 10-K and in our 2017 Annual Report on Form 10-K.

We present certain capital information on a tangible basis, including the ratio of Tangible common equity to tangible assets, Tangible equity, and Tangible ⁷ common equity, which removes the after-tax impact of purchase accounting intangible assets. We believe these measures are useful to investors because, by removing the amount of intangible assets that result from merger and acquisition activity (the level of which may vary from company to company), it allows investors to more easily compare our capital position to other companies in the industry. These measures are utilized by management to analyze capital adequacy.

⁸ Basel III capital ratios are calculated under the standardized approach using regulatory capital methodology applicable to us for each period presented. Refer to the "Capital Resources" section of this MD&A for additional regulatory capital information.

⁹ Net of deferred taxes of \$160 million, \$160 million, \$159 million, and \$159 million at December 31, 2018, September 30, 2018, June 30, 2018, and March 31, 2018, respectively. Net of deferred taxes of \$163 million, \$254 million, \$253 million, and \$252 million at December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017, respectively. Net of deferred taxes of \$251 million, \$240 million, and \$214 million at December 31, 2016, 2015, and 2014, respectively.

¹⁰ We present certain income statement categories and also Adjusted tangible efficiency ratio-FTE, Total adjusted revenue-FTE, Adjusted net income available to common shareholders, Adjusted noninterest income, Adjusted noninterest expense, and Adjusted diluted net income per average common share, which exclude Form 8-K and tax reform-related items recognized in the fourth quarter of 2017 as well as other legacy mortgage-related items recognized in 2014. We believe these measures are useful to investors because they remove the effects of material items impacting the periods' results and are more reflective of normalized ¹⁰ operations as they reflect results that are primarily client relationship and client transaction driven. Removing these items also allows investors to compare our results to other companies in the industry that may not have had similar items impacting their results. Additional detail on these items can be found in our 2017 Annual Report on Form 10-K.

¹¹ We present the reconciliation of PPNR because it is a performance metric utilized by management and in certain of our compensation plans. PPNR impacts the ¹¹ level of awards if certain thresholds are met. We believe this measure is useful to investors because it allows investors to compare our PPNR to other companies in the industry who present a similar measure.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Enterprise Risk Management” section in Part II, Item 7 of this Form 10-K, which is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SunTrust Banks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SunTrust Banks, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SunTrust Banks, Inc. at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2007.

Atlanta, Georgia
February 22, 2019

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Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of SunTrust Banks, Inc.

Opinion on Internal Control over Financial Reporting

We have audited SunTrust Banks, Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, SunTrust Banks, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of SunTrust Banks, Inc. as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Atlanta, Georgia
February 22, 2019

SunTrust Banks, Inc.
Consolidated Statements of Income

	Year Ended December		
	31		
(Dollars in millions and shares in thousands, except per share data)	2018	2017	2016
Interest Income			
Interest and fees on loans held for investment	\$6,058	\$5,385	\$4,939
Interest and fees on loans held for sale	101	99	92
Interest on securities available for sale ¹	849	756	636
Trading account interest and other ¹	197	147	111
Total interest income	7,205	6,387	5,778
Interest Expense			
Interest on deposits	711	404	259
Interest on long-term debt	375	288	260
Interest on other borrowings	132	62	38
Total interest expense	1,218	754	557
Net interest income	5,987	5,633	5,221
Provision for credit losses	208	409	444
Net interest income after provision for credit losses	5,779	5,224	4,777
Noninterest Income			
Service charges on deposit accounts	579	603	630
Other charges and fees ²	356	361	359
Card fees	324	344	327
Investment banking income ²	599	623	515
Trading income	161	189	211
Mortgage related income ³	342	422	555
Trust and investment management income	304	309	304
Retail investment services	292	278	281
Commercial real estate related income	134	123	69
Net securities gains/(losses)	1	(108)	4
Gain on sale of subsidiary	—	107	—
Other noninterest income	134	103	128
Total noninterest income	3,226	3,354	3,383
Noninterest Expense			
Employee compensation	2,878	2,854	2,698
Employee benefits	430	403	373
Outside processing and software	909	826	834
Net occupancy expense	372	377	349
Marketing and customer development	175	232	172
Equipment expense	166	164	170
Regulatory assessments	126	187	173
Operating losses	79	40	108
Amortization	73	75	49
Consulting and legal fees	62	71	93
Other staff expense	52	121	67
Other noninterest expense	351	414	382
Total noninterest expense	5,673	5,764	5,468
Income before provision for income taxes	3,332	2,814	2,692
Provision for income taxes	548	532	805
Net income including income attributable to noncontrolling interest	2,784	2,282	1,887

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Less: Net income attributable to noncontrolling interest	9	9	9
Net income	2,775	2,273	1,878
Less: Preferred stock dividends and other	107	94	67
Net income available to common shareholders	\$2,668	\$2,179	\$1,811
Net income per average common share:			
Diluted	\$5.74	\$4.47	\$3.60
Basic	5.79	4.53	3.63
Dividends declared per common share	1.80	1.32	1.00
Average common shares outstanding - diluted	464,961	486,954	503,466
Average common shares outstanding - basic	460,922	481,339	498,638

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

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

³ Beginning with this Form 10-K, the Company began presenting Mortgage production related income and Mortgage servicing related income as a single line item on the Consolidated Statements of Income titled Mortgage related income. Prior periods have been conformed to this updated presentation for comparability. *See accompanying Notes to Consolidated Financial Statements.*

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

(Dollars in millions)	Year Ended December 31		
	2018	2017 ¹	2016
Net income	\$2,775	\$2,273	\$1,878
Components of other comprehensive (loss)/income:			
Change in net unrealized (losses)/gains on securities available for sale, net of tax of (\$117), \$29, and (\$117), respectively	(386)	61	(197)
Change in net unrealized losses on derivative instruments, net of tax of (\$21), \$0, and (\$145), respectively	(68)	(87)	(244)
Change in net unrealized gains/(losses) on brokered time deposits, net of tax of \$0, \$0, and \$0, respectively	2	—	(1)
Change in credit risk adjustment on long-term debt, net of tax of \$1, \$3, and (\$1), respectively	4	3	(2)
Change related to employee benefit plans, net of tax of \$1, \$138, and \$52, respectively	2	24	88
Total other comprehensive (loss)/income, net of tax	(446)	1	(356)
Total comprehensive income	\$2,329	\$2,274	\$1,522

¹ Net of tax amounts include the stranded tax effects resulting from the 2017 Tax Act. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements.

SunTrust Banks, Inc.
Consolidated Balance Sheets

	December 31,	
	2018	2017
(Dollars in millions and shares in thousands, except per share data)		
Assets		
Cash and due from banks	\$5,791	\$5,349
Federal funds sold and securities borrowed or purchased under agreements to resell	1,679	1,538
Interest-bearing deposits in other banks	25	25
Cash and cash equivalents	7,495	6,912
Trading assets and derivative instruments ¹	5,506	5,093
Securities available for sale ^{2,3}	31,442	30,947
Loans held for sale (\$1,178 and \$1,577 at fair value at December 31, 2018 and 2017, respectively)	1,468	2,290
Loans held for investment ⁴ (\$163 and \$196 at fair value at December 31, 2018 and 2017, respectively)	151,839	143,181
Allowance for loan and lease losses	(1,615)	(1,735)
Net loans held for investment	150,224	141,446
Premises, property, and equipment, net ⁵	2,024	2,053
Goodwill	6,331	6,331
Other intangible assets (Residential MSRs at fair value: \$1,983 and \$1,710 at December 31, 2018 and 2017, respectively)	2,062	1,791
Other assets ^{3,5} (\$95 and \$56 at fair value at December 31, 2018 and 2017, respectively)	8,991	9,099
Total assets	\$215,543	\$205,962
Liabilities		
Noninterest-bearing deposits	\$40,770	\$42,784
Interest-bearing deposits (\$403 and \$236 at fair value at December 31, 2018 and 2017, respectively)	121,819	117,996
Total deposits	162,589	160,780
Funds purchased	2,141	2,561
Securities sold under agreements to repurchase	1,774	1,503
Other short-term borrowings	4,857	717
Long-term debt ⁶ (\$289 and \$530 at fair value at December 31, 2018 and 2017, respectively)	15,072	9,785
Trading liabilities and derivative instruments	1,604	1,283
Other liabilities	3,226	4,179
Total liabilities	191,263	180,808
Shareholders' Equity		
Preferred stock, no par value	2,025	2,475
Common stock, \$1.00 par value	553	550
Additional paid-in capital	9,022	9,000
Retained earnings	19,522	17,540
Treasury stock, at cost, and other ⁷	(5,422)	(3,591)
Accumulated other comprehensive loss, net of tax	(1,420)	(820)
Total shareholders' equity	24,280	25,154
Total liabilities and shareholders' equity	\$215,543	\$205,962
Common shares outstanding ⁸	446,888	470,931
Common shares authorized	750,000	750,000
Preferred shares outstanding	20	25
Preferred shares authorized	50,000	50,000
Treasury shares of common stock	105,896	79,133

¹ Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral \$1,442 \$1,086

² Includes securities AFS pledged as collateral where counterparties have the right to sell or repledge the collateral 222 223

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³ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities available for sale to Other assets. Prior periods have been revised to conform to the current presentation.

⁴ Includes loans held for investment of consolidated VIEs

153 179

⁵ Beginning October 1, 2018, the Company reclassified capitalized software and related accumulated amortization previously presented in Other assets to Premises, property, and equipment, net. Prior periods have been revised to conform to the current presentation.

⁶ Includes debt of consolidated VIEs

161 189

⁷ Includes noncontrolling interest

103 103

⁸ Includes restricted shares

7 9

See accompanying Notes to Consolidated Financial Statements.

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SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock and Other	Accumulated Other Comprehensive Loss	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	—	—	—	—	1,878	—	—	1,878
Other comprehensive loss	—	—	—	—	—	—	(356)	(356)
Change in noncontrolling interest	—	—	—	—	—	(5)	—	(5)
Common stock dividends, \$1.00 per share	—	—	—	—	(498)	—	—	(498)
Preferred stock dividends ³	—	—	—	—	(66)	—	—	(66)
Repurchase of common stock	—	(20)	—	—	—	(806)	—	(806)
Repurchase of common stock warrants	—	—	—	(24)	—	—	—	(24)
Exercise of stock options and stock compensation expense ⁴	—	1	—	(40)	—	65	—	25
Restricted stock activity ⁴	—	1	—	(20)	(5)	56	—	31
Amortization of restricted stock compensation	—	—	—	—	—	2	—	2
Balance, December 31, 2016	\$1,225	491	\$550	\$9,010	\$16,000	(\$2,346)	(\$821)	\$23,618
Net income	—	—	—	—	2,273	—	—	2,273
Other comprehensive income	—	—	—	—	—	—	1	1
Common stock dividends, \$1.32 per share	—	—	—	—	(634)	—	—	(634)
Preferred stock dividends ³	—	—	—	—	(94)	—	—	(94)
Issuance of preferred stock, Series G and H	1,250	—	—	(11)	—	—	—	1,239
Repurchase of common stock	—	(22)	—	—	—	(1,314)	—	(1,314)
Exercise of stock options and stock compensation expense	—	1	—	(15)	—	36	—	21
Restricted stock activity	—	1	—	16	(5)	33	—	44
Balance, December 31, 2017	\$2,475	471	\$550	\$9,000	\$17,540	(\$3,591)	(\$820)	\$25,154
Cumulative effect adjustment related to ASU adoptions ⁵	—	—	—	—	149	—	(154)	(5)
Net income	—	—	—	—	2,775	—	—	2,775
Other comprehensive loss	—	—	—	—	—	—	(446)	(446)
Common stock dividends, \$1.80 per share	—	—	—	—	(826)	—	—	(826)
Preferred stock dividends ³	—	—	—	—	(107)	—	—	(107)
Redemption of preferred stock, Series E	(450)	—	—	—	—	—	—	(450)
Repurchase of common stock	—	(29)	—	—	—	(1,910)	—	(1,910)
Exercise of stock options and stock compensation expense	—	1	—	—	—	36	—	36
Exercise of stock warrants	—	3	3	(3)	—	—	—	—
Restricted stock activity	—	1	—	25	(9)	42	—	58
Amortization of restricted stock compensation	—	—	—	—	—	1	—	1
Balance, December 31, 2018	\$2,025	447	\$553	\$9,022	\$19,522	(\$5,422)	(\$1,420)	\$24,280

¹ At December 31, 2018, includes (\$5,525) million for treasury stock and \$103 million for noncontrolling interest.

At December 31, 2017, includes (\$3,694) million for treasury stock and \$103 million for noncontrolling interest.

At December 31, 2016, includes (\$2,448) million for treasury stock, (\$1) million for the compensation element of restricted stock, and \$103 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 23, "Accumulated Other Comprehensive Loss," for additional information.

³ For the year ended December 31, 2018, dividends were \$4,056 per share for both Series A and B Preferred Stock, \$1,469 per share for Series E Preferred Stock, \$5,625 per share for Series F Preferred Stock, \$5,050 per share for Series G Preferred Stock, and \$5,566 per share for Series H Preferred Stock.

For the year ended December 31, 2017, dividends were \$4,056 per share for both Series A and B Preferred Stock, \$5,875 per share for Series E Preferred Stock, \$5,625 per share for Series F Preferred Stock, \$3,128 per share for Series G Preferred Stock, and \$669 per share for Series H Preferred Stock.

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For the year ended December 31, 2016, dividends were \$4,067 per share for both Series A and B Preferred Stock, \$5,875 per share for Series E Preferred Stock, and \$5,625 per share for Series F Preferred Stock.

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.

⁵ Related to the Company's adoption of ASU 2014-09, ASU 2016-01, ASU 2017-12, and ASU 2018-02 on January 1, 2018. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements.

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31		
	2018	2017	2016
(Dollars in millions)			
Cash Flows from Operating Activities:			
Net income including income attributable to noncontrolling interest	\$2,784	\$2,282	\$1,887
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation, amortization, and accretion	716	727	725
Origination of servicing rights	(352)	(411)	(312)
Provisions for credit losses and foreclosed property	218	418	449
Deferred income tax (benefit)/expense	(87)	344	111
Stock-based compensation	140	160	126
Net securities (gains)/losses	(1)	108	(4)
Net gains on sale of loans held for sale, loans, and other assets	(97)	(269)	(428)
Gain on sale of subsidiary	—	(107)	—
Net decrease/(increase) in loans held for sale	886	2,099	(1,819)
Net (increase)/decrease in trading assets and derivative instruments	(501)	834	(342)
Net (increase)/decrease in other assets ¹	(340)	348	(627)
Net decrease in other liabilities	(797)	(911)	(284)
Net cash provided by/(used in) operating activities	2,569	5,622	(518)
Cash Flows from Investing Activities:			
Proceeds from maturities, calls, and paydowns of securities available for sale	3,690	4,186	5,108
Proceeds from sales of securities available for sale	2,096	2,854	197
Purchases of securities available for sale	(6,389)	(8,299)	(8,610)
Net increase in loans, including purchases of loans	(9,406)	(2,425)	(9,032)
Proceeds from sales of loans and leases	281	720	1,612
Net cash paid for servicing rights	(78)	(7)	(171)
Payments for bank-owned life insurance policy premiums ¹	(202)	(127)	(202)
Proceeds from the settlement of bank-owned life insurance ¹	14	3	17
Proceeds from beneficial interest ¹	2	11	12
Capital expenditures	(345)	(410)	(283)
Payments related to acquisitions, net of cash acquired ¹	—	—	(188)
Consideration received from sale of subsidiary	—	261	—
Proceeds from the sale of other real estate owned and other assets	186	235	233
Net cash used in investing activities	(10,151)	(2,998)	(11,307)
Cash Flows from Financing Activities:			
Net increase in total deposits	1,809	382	10,568
Net increase in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	3,991	17	37
Proceeds from issuance of long-term debt	6,944	2,844	6,705
Repayments of long-term debt	(1,274)	(4,562)	(3,231)
Payments of contingent consideration ¹	—	—	(13)
Proceeds from issuance of preferred stock	—	1,239	—
Repurchase of preferred stock	(450)	—	—
Repurchase of common stock	(1,910)	(1,314)	(806)
Repurchase of common stock warrants	—	—	(24)
Common and preferred stock dividends paid	(936)	(723)	(564)
Taxes paid related to net share settlement of equity awards	(45)	(39)	(48)
Proceeds from exercise of stock options	36	21	25
Net cash provided by/(used in) financing activities	8,165	(2,135)	12,649
Net increase in cash and cash equivalents	583	489	824

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Cash and cash equivalents at beginning of period	6,912	6,423	5,599
Cash and cash equivalents at end of period	\$7,495	\$6,912	\$6,423

Supplemental Disclosures:

Interest paid	\$1,151	\$730	\$559
Income taxes paid	130	415	813
Income taxes refunded	(219)	(3)	(2)
Loans transferred from loans held for sale to loans held for investment	28	19	30
Loans transferred from loans held for investment to loans held for sale	532	288	360
Loans transferred from loans held for investment and loans held for sale to other real estate owned	62	57	59
Amortization of deferred gain on sale leaseback of premises	6	17	43
Non-cash impact of debt assumed by purchaser in lease sale	373	184	74

¹ Certain prior period amounts have been revised to reflect the impact of the Company's adoption of ASU 2016-15. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

General

SunTrust is a financial services holding company headquartered in Atlanta, Georgia and is one of the nation's largest commercial banking organizations. Through its principal subsidiary, SunTrust Bank, the Company offers a full line of financial services for consumers, businesses, corporations, institutions, and not-for-profit entities, both through branches (located primarily in Florida, Georgia, Virginia, North Carolina, Tennessee, Maryland, South Carolina, and the District of Columbia) and through other digital and national delivery channels. In addition to deposit, credit, mortgage banking, and trust and investment services provided by the Bank, the Company's other subsidiaries provide capital markets, securities brokerage, investment banking, and wealth management services. The Company operates and measures business activity across two business segments: Consumer and Wholesale, with functional activities included in Corporate Other. For additional information on the Company's business segments, see Note 22, "Business Segment Reporting."

Principles of Consolidation and Basis of Presentation

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its subsidiaries after elimination of significant intercompany accounts and transactions. 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 Company holds VIs, which are contractual, ownership or other interests that fluctuate with changes in the fair value of a VIE's net assets. The Company consolidates a VIE if it is the primary beneficiary, which is the party that has both the power to direct the activities that most significantly impact the financial performance of the VIE and the obligation to absorb losses or rights to receive benefits through its VIs that could potentially be significant to the VIE. To determine whether or not a VI held by the Company could potentially be significant to the VIE, both qualitative and quantitative factors regarding the nature, size, and form of the Company's involvement with the VIE are considered. The assessment of whether or not the Company is the primary beneficiary of a VIE is performed on an ongoing basis. The Company consolidates VOEs that are controlled through the Company's equity interests or by other means.

Investments in entities for which the Company has the ability to exercise significant influence, but not control, over operating and financing decisions are accounted for using the equity method of accounting. These investments are included in Other assets in the Consolidated Balance Sheets at cost, adjusted to reflect the Company's portion of income, loss, or dividends of the investee. For information on the Company's equity investments that do not meet the criteria to be accounted for under the equity method and do not result in consolidation of the investee, see the "Equity Securities" section in this Note.

Results of operations of acquired entities are included from the date of acquisition. Results of operations associated with entities or net assets sold are included through the date of

disposition. The Company reports any noncontrolling interests in its subsidiaries in the equity section of the Consolidated Balance Sheets and separately presents the income or loss attributable to the noncontrolling interest of a consolidated subsidiary in its Consolidated Statements of Income.

Assets and liabilities of acquired entities are accounted for under the acquisition method of accounting, whereby the purchase price of an acquired entity is allocated to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The excess of the purchase price over the amount allocated to the assets acquired and liabilities assumed is recorded as goodwill.

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.

Cash and Cash Equivalents

Cash and cash equivalents include Cash and due from banks, Interest-bearing deposits in other banks, Fed Funds sold, and Securities borrowed or purchased under agreements to resell. Cash and cash equivalents have maturities of three months or less, and accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value.

Trading Activities

Various trading assets and liabilities are used as part of the Company's overall balance sheet management strategies and to support client requirements. Trading assets and liabilities are measured at fair value with changes in fair value recognized within Noninterest income in the Company's Consolidated Statements of Income. See Note 5, "Trading Assets and Liabilities and Derivative Instruments," for additional information on the Company's trading activities.

Investments

The Company invests in various debt and equity securities that are not held for trading purposes. Debt securities that the Company might not hold until maturity are classified as securities AFS. Equity securities that are not held for trading purposes are recorded in Other assets on the Consolidated Balance Sheets.

Securities Available for Sale

The Company invests in various debt securities primarily as a store of liquidity and as part of the overall ALM process to optimize income and market performance over an entire interest rate cycle. Interest income on securities AFS is recognized on an accrual basis in Interest income in the Company's Consolidated Statements of Income. Premiums and discounts on securities AFS are amortized or accreted as an adjustment to yield over the life of the security. The Company estimates principal prepayments on securities AFS for which prepayments are probable and the timing and amount of prepayments can be

Notes to Consolidated Financial Statements, continued

reasonably estimated. The estimates are informed by analyses of both historical prepayments and anticipated macroeconomic conditions, such as spot interest rates compared to implied forward interest rates. The estimate of prepayments for these securities impacts their lives and thereby the amortization or accretion of associated premiums and discounts. Securities AFS are measured at fair value with unrealized gains and losses, net of any tax effect, included in AOCI as a component of shareholders' equity. Realized gains and losses, including OTTI, are determined using the specific identification method and are recognized as a component of Noninterest income in the Consolidated Statements of Income.

Securities AFS are reviewed for OTTI on a quarterly basis. In determining whether OTTI exists for securities AFS in an unrealized loss position, the Company assesses whether it has the intent to sell the security or assesses the likelihood of selling the security prior to the recovery of its amortized cost basis. If the Company intends to sell the security or it is more-likely-than-not that the Company will be required to sell the security prior to the recovery of its amortized cost basis, the security is written down to fair value, and the full amount of any impairment charge is recognized as a component of Noninterest income in the Consolidated Statements of Income. If the Company does not intend to sell the security and it is more-likely-than-not that the Company will not be required to sell the security prior to recovery of its amortized cost basis, only the credit component of any impairment of a debt security is recognized as a component of Noninterest income in the Consolidated Statements of Income, with the amount of any remaining unrealized losses recorded in OCI. For additional information on the Company's securities AFS, see Note 6, "Investment Securities," and Note 20, "Fair Value Election and Measurement."

Equity Securities

Equity securities that are not classified as trading assets or liabilities are recorded in Other assets on the Company's Consolidated Balance Sheets. Equity securities with readily determinable fair values (marketable) are measured at fair value, with changes in the fair value recognized as a component of Noninterest income in the Company's Consolidated Statements of Income. Marketable equity securities include mutual fund investments and other publicly traded equity securities. Dividends received from mutual fund investments are recognized within Interest income (Trading account interest and other), and dividends received from other marketable equity securities are recognized within Noninterest income in the Consolidated Statements of Income. Equity securities that do not have readily determinable fair values (nonmarketable) are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer, also referred to as the measurement alternative. Any adjustments to the carrying value of these nonmarketable equity securities are recognized in Other noninterest income in the Company's Consolidated Statements of Income. Nonmarketable equity securities include Federal Reserve Bank of Atlanta and FHLB of Atlanta capital stock, both held at cost, as well as other equity securities that the Company elected to account for under the measurement alternative. Dividends received from Federal Reserve Bank of Atlanta and FHLB of Atlanta capital stock are

recognized within Interest income (Trading account interest and other), and dividends received from other nonmarketable equity securities are recognized in Other noninterest income in the Consolidated Statements of Income. For additional information on the Company's equity securities, see Note 11, "Other Assets," and Note 20, "Fair Value Election and Measurement."

Securities Sold Under Agreements to Repurchase and Securities Borrowed or Purchased Under Agreements to Resell

Securities sold under agreements to repurchase and securities borrowed or purchased under agreements to resell are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold or acquired, plus accrued interest. The fair value of collateral pledged or received is continually monitored and additional collateral is obtained or requested to be returned to the Company as deemed appropriate. For additional

information on the collateral pledged to secure repurchase agreements, see Note 4, “Federal Funds Sold and Securities Financing Activities,” Note 5, “Trading Assets and Liabilities and Derivatives,” and Note 6, “Investment Securities.”

Loans Held for Sale

The Company’s LHFS generally includes certain commercial loans and consumer loans. Loans are initially classified as LHFS when they are individually identified as being available for immediate sale and management has committed to a formal plan to sell them. LHFS are recorded at either fair value, if elected, or the lower of cost or fair value. Any origination fees and costs for LHFS recorded at LOCOM are capitalized in the basis of the loan and are included in the calculation of realized gains and losses upon sale. Origination fees and costs are recognized in earnings at the time of origination for LHFS that are elected to be measured at fair value. Fair value is derived from observable current market prices, when available, and includes loan servicing value. When observable market prices are not available, the Company uses judgment and estimates fair value using internal models, in which the Company uses its best estimates of assumptions it believes would be used by market participants in estimating fair value. Adjustments to reflect unrealized gains and losses resulting from changes in fair value and realized gains and losses upon ultimate sale of the loans are classified as Noninterest income in the Consolidated Statements of Income.

The Company may transfer certain loans to LHFS measured at LOCOM. At the time of transfer, any credit losses subject to charge-off in accordance with the Company’s policy are recorded as a reduction in the ALLL. Any subsequent losses, including those related to interest rate or liquidity related valuation adjustments, are recorded as a component of Noninterest income in the Consolidated Statements of Income. The Company may also transfer loans from LHFS to LHFI. If an LHFS for which fair value accounting was elected is transferred to held for investment, it will continue to be accounted for at fair value in the LHFI portfolio. For additional information on the Company’s LHFS activities, see Note 7, “Loans.”

Loans Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are considered

Notes to Consolidated Financial Statements, continued

LHFI. The Company's loan balance is comprised of loans held in portfolio, including commercial loans and consumer loans. Interest income on loans, except those classified as nonaccrual, is accrued based upon the outstanding principal amounts using the effective yield method.

Commercial loans (C&I, CRE, and commercial construction) are considered to be past due when payment is not received from the borrower by the contractually specified due date. The Company typically classifies commercial loans as nonaccrual when one of the following events occurs: (i) interest or principal has been past due 90 days or more, unless the loan is both well secured and in the process of collection; (ii) collection of contractual interest or principal is not anticipated; or (iii) income for the loan is recognized on a cash basis due to the deterioration in the financial condition of the debtor. When a loan is placed on nonaccrual, accrued interest is reversed against interest income. Interest income on commercial nonaccrual loans, if recognized, is recognized after the principal has been reduced to zero. If and when commercial borrowers demonstrate the ability to repay a loan classified as nonaccrual in accordance with its contractual terms, the loan may be returned to accrual status upon meeting all regulatory, accounting, and internal policy requirements.

Consumer loans secured by residential real estate (guaranteed and nonguaranteed residential mortgages, residential home equity products, and residential construction loans) are considered to be past due when a monthly payment is due and unpaid for one month. Guaranteed residential mortgages continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured by the government. Nonguaranteed residential mortgages and residential construction loans are generally placed on nonaccrual when three payments are past due. Residential home equity products are generally placed on nonaccrual when payments are 90 days past due. The exceptions for nonguaranteed residential mortgages, residential construction loans, and residential home equity products are: (i) when the borrower has declared bankruptcy, in which case, they are moved to nonaccrual status once they become 60 days past due, (ii) loans discharged in Chapter 7 bankruptcy that have not been reaffirmed by the borrower, in which case, they are reclassified as TDRs and moved to nonaccrual status, and (iii) second lien loans, which are classified as nonaccrual when the first lien loan is classified as nonaccrual, even if the second lien loan is performing. When a loan is placed on nonaccrual, accrued interest is reversed against interest income. Interest income on nonaccrual consumer loans secured by residential real estate is recognized on a cash basis. Nonaccrual consumer loans secured by residential real estate are typically returned to accrual status once they no longer meet the delinquency threshold that resulted in them initially being moved to nonaccrual status, with the exception of the aforementioned Chapter 7 bankruptcy loans, which remain on nonaccrual until there is six months of payment performance following discharge by the bankruptcy court.

All other consumer loans (guaranteed student, other direct, indirect, and credit card loans) are considered to be past due when payment is not received from the borrower by the contractually specified due date. Guaranteed student loans continue to accrue interest regardless of delinquency status because collection of principal and interest is reasonably assured. Other direct and

indirect loans are typically placed on nonaccrual when payments have been past due for 90 days or more, except when the borrower has declared bankruptcy, in which case they are moved to nonaccrual status once they become 60 days past due. When a loan is placed on nonaccrual, accrued interest is reversed against interest income. Interest income on nonaccrual loans, if recognized, is recognized on a cash basis. Nonaccrual consumer loans are typically returned to accrual status once they are no longer past due.

TDRs are loans in which the borrower is experiencing financial difficulty at the time of restructure and the borrower received an economic concession either from the Company or as the product of a bankruptcy court order. A restructuring that results in only a delay in payments that is insignificant is not considered an economic concession. To date, the Company's TDRs have been predominantly first and second lien residential mortgages and home equity lines of credit. Prior to granting a modification of a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service under the potential modified loan terms. The types of concessions

generally granted are extensions of the loan maturity date and/or reductions 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. Typically, if a loan is accruing interest at the time of modification, the loan remains on accrual status and is subject to the Company's charge-off and nonaccrual policies. See the "Allowance for Credit Losses" section below for further information regarding these policies. If a loan is on nonaccrual before it is determined to be a TDR, then the loan remains on nonaccrual. Typically, TDRs may be returned to accrual status if there has been at least a six month sustained period of repayment performance by the borrower. Generally, once a loan becomes a TDR, the Company expects that the loan will continue to be reported as a TDR for its remaining life, even after returning to accruing status, unless the modified rates and terms at the time of modification were available to the borrower in the market or the loan is subsequently restructured with no concession to the borrower and the borrower is no longer in financial difficulty. Interest income recognition on impaired loans is dependent upon accrual status, TDR designation, and loan type as discussed above.

For loans accounted for at amortized cost, fees and incremental direct costs associated with loan origination as well as premiums and discounts, are deferred and amortized over the respective loan terms. Fees received for providing loan commitments that result in funded loans are recognized over the term of the loan as an adjustment of the yield. If a loan is never funded, the commitment fee is recognized in Noninterest income at the expiration of the commitment period. For any newly-originated loans that are accounted for at fair value, the origination fees are recognized in Noninterest income while the origination costs are recognized in Noninterest expense, at the time of origination. For additional information on the Company's LHFI activities, see Note 7, "Loans."

Allowance for Credit Losses

The allowance for credit losses is composed of the ALLL and the reserve for unfunded commitments. The Company's ALLL reflects probable current inherent losses in the LHFI portfolio

Notes to Consolidated Financial Statements, continued

based on management's evaluation of the size and current risk characteristics of the loan portfolio. The Company employs a variety of modeling and estimation techniques to measure credit risk and construct an appropriate and adequate ALLL. Quantitative and qualitative asset quality measures are considered in estimating the ALLL. Such evaluation considers a number of factors for each of the loan portfolio segments, including, but not limited to, net charge-off trends, internal risk ratings, changes in internal risk ratings, loss forecasts, collateral values, geographic location, delinquency rates, nonperforming and restructured loan status, origination channel, product mix, underwriting practices, industry conditions, and economic trends. Additionally, refreshed FICO scores are considered for consumer loans and single name borrower concentration is considered for commercial loans. These credit quality factors are incorporated into various loss estimation models and analytical tools utilized in the ALLL process and/or are qualitatively considered in evaluating the overall reasonableness of the ALLL.

Large commercial nonaccrual loans as well as certain consumer and commercial loans whose terms have been modified in a TDR are reviewed to determine the amount of specific allowance required in accordance with applicable accounting guidance. A loan is considered impaired when, based on current information and events, 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. If necessary, an allowance is established for these specifically evaluated impaired loans. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral, net of estimated selling costs. Any change in the present value attributable to the passage of time is recognized through the Provision for credit losses.

General allowances are established for loans and leases grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience, expected loss factors derived from the Company's internal risk rating process, portfolio trends, and regional and national economic conditions. Other adjustments may be made to the ALLL after an assessment of internal and external influences on credit quality that may not be fully reflected in the historical loss or risk rating data. These influences may include elements such as changes in credit underwriting, concentration risk, macroeconomic conditions, and/or recent observable asset quality trends.

Commercial loans are charged off when they are considered uncollectible. Losses on unsecured consumer loans are generally recognized at 120 days past due, except for losses on credit cards, which are recognized when the loans are 180 days past due, and losses on guaranteed student loans, which are recognized when the loans are 270 days past due and payment from the guarantor is processed by the servicer. However, if the borrower is in bankruptcy, the loan is charged-off in the month the loan becomes 60 days past due. Losses, as appropriate, on consumer loans secured by residential real estate, are typically recognized at 120 or 180 days past due, depending on the loan and collateral type, in compliance with the FFIEC guidelines. However, if the borrower is in bankruptcy, the secured asset is evaluated once

the loan becomes 60 days past due. The loan value in excess of the secured asset value is written down or charged-off after the valuation occurs. Additionally, if a residential loan is discharged in Chapter 7 bankruptcy and not reaffirmed by the borrower, the Company's policy is to immediately charge-off the excess of the carrying amount over the fair value of the collateral.

The Company uses numerous sources of information when evaluating a property's value. Estimated collateral valuations are based on appraisals, broker price opinions, recent sales of foreclosed properties, automated valuation models, other property-specific information, and relevant market information, supplemented by the Company's internal property valuation analysis. The value estimate is based on an orderly disposition of the property, inclusive of marketing costs. In limited instances, the Company adjusts externally provided appraisals for justifiable and well-supported reasons, such as an appraiser not being aware of certain property-specific factors or recent sales information.

For commercial loans secured by real estate, an acceptable third party appraisal or other form of evaluation, as permitted by regulation, is obtained prior to the origination of the loan and upon a subsequent transaction involving a material change in terms. In addition, updated valuations may be obtained during the life of a loan, as appropriate, such as when a loan's performance materially deteriorates. In situations where an updated appraisal has not been received or a formal evaluation performed, the Company monitors factors that can positively or negatively impact property value, such as the date of the last valuation, the volatility of property values in specific markets, changes in the value of similar properties, and changes in the characteristics of individual properties. Changes in collateral value affect the ALLL through the risk rating or impaired loan evaluation process. Charge-offs are recognized when the amount of the loss is quantifiable and timing is known. The charge-off is measured based on the difference between the loan's carrying value, including deferred fees, and the estimated realizable value of the property, net of estimated selling costs. When valuing a property for the purpose of determining a charge-off, a third party appraisal or an independently derived internal evaluation is generally employed.

For nonguaranteed mortgage loans secured by residential real estate where the Company is proceeding with a foreclosure action, a new valuation is obtained prior to the loan becoming 180 days past due and, if required, the loan is written down to its realizable value, net of estimated selling costs. In the event the Company decides not to proceed with a foreclosure action, the full balance of the loan is charged-off. If a loan remains in the foreclosure process for 12 months past the original charge-off, the Company may obtain a new valuation. Any additional loss based on the new valuation is charged-off. At foreclosure, a new valuation is obtained and the loan is transferred to OREO at fair value less estimated selling costs; any loan balance in excess of the transfer value is charged-off. Estimated declines in value of the collateral between these formal evaluation events are captured in the ALLL based on changes in the house price index in the applicable metropolitan statistical area or other market information.

In addition to the ALLL, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and binding unfunded loan commitments.

Notes to Consolidated Financial Statements, continued

Unfunded lending commitments are analyzed and segregated by risk based on the Company's internal risk rating scale. These risk classifications, in combination with probability of commitment usage, existing economic conditions, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. The Unfunded commitments reserve is reported in Other liabilities on the Consolidated Balance Sheets and the provision associated with changes in the Unfunded commitment reserve is recognized in the Provision for credit losses in the Consolidated Statements of Income. For additional information on the Company's allowance for credit loss activities, see Note 8, "Allowance for Credit Losses."

Premises, Property, and Equipment

Premises, property, and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is calculated predominantly using the straight-line method over the assets' estimated useful lives and is recorded within the corresponding Noninterest expense categories on the Consolidated Statements of Income. Leasehold improvements are amortized using the straight-line method over the shorter of the improvements' estimated useful lives or the lease term. Construction in process includes costs related to in-process branch expansion and branch renovation projects. Those projects are maintained in premises, property, and equipment upon completion. Software is comprised of purchased software licenses as well as internally developed and customized software for internal use. Software development costs incurred during the planning and post-development phases are recorded in Outside processing and software expense in the Consolidated Statements of Income. Software costs incurred during the development execution phase, including costs associated with design, configuration, installation, coding, and testing are capitalized and amortized using the straight-line method over the estimated useful life of the software. Maintenance and repairs are charged to expense, and improvements that extend the useful life of an asset are capitalized and depreciated over the remaining useful life. Premises, property, and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. For additional information on the Company's premises, property, and equipment activities, see Note 9, "Premises, Property, and Equipment."

Goodwill and Other Intangible Assets

Goodwill represents the excess purchase price over the fair value of identifiable net assets of acquired companies. Goodwill is assigned to reporting units that are expected to benefit from the synergies of the business combination. The Company conducts a qualitative goodwill assessment at the reporting unit level at least quarterly, 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. Factors considered in the Company's qualitative assessment include financial performance, financial forecasts, macroeconomic conditions, industry and market conditions, cost factors, market capitalization, carrying value, and events affecting the reporting units.

If, after considering all relevant events and circumstances, the Company determines it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is necessary to perform. If the Company elects to bypass the qualitative analysis, or concludes from the Company's qualitative analysis that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, a two-step goodwill impairment test is performed either (i) annually as of October 1, or (ii) more frequently as considered necessary. In the first step of the impairment test, the fair value of each reporting unit is compared with its carrying amount. If the fair value is greater than the carrying amount, then the reporting unit's goodwill is deemed not to be impaired. If the fair value is less than the carrying amount, then a second step is performed, which measures the amount of impairment by comparing the carrying amount of goodwill to its implied fair value.

The Company has identified intangible assets with finite and indefinite lives. Intangible assets that have finite lives are amortized over their useful lives and carried at amortized cost. Intangible assets that have indefinite lives are initially

measured at fair value and are not amortized until the useful life is no longer considered indefinite. Indefinite-lived intangibles are tested for impairment at least annually; however, all intangible assets are evaluated for impairment whenever events or changes in circumstances indicate it is more likely than not that the asset is impaired. For additional information on the Company's activities related to goodwill and other intangibles, see Note 10, "Goodwill and Other Intangible Assets."

Servicing Rights

The Company recognizes as assets the rights to service loans, either when the loans are sold and the associated servicing rights are retained or when servicing rights are purchased from a third party. All servicing rights are initially measured at fair value.

Fair value is determined by projecting net servicing cash flows, which are then discounted to estimate fair value. The fair value of servicing rights is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractually-specified servicing fees, servicing costs, and underlying portfolio characteristics. The underlying assumptions and estimated values are corroborated by values received from independent third parties and comparisons to market transactions.

The Company has elected to subsequently account for its residential MSR's under the fair value measurement method and actively hedges the change in fair value of its residential MSR's. The Company has elected to subsequently account for all other servicing rights, which include commercial mortgage and consumer loan servicing rights, under the amortization method. Commercial mortgage and consumer loan servicing rights are amortized in proportion to and over the period of estimated net servicing income. Servicing rights accounted for under the amortization method are periodically tested for impairment by comparing the carrying amount of the servicing rights to the estimated fair value.

Servicing rights are included in Other intangible assets on the Consolidated Balance Sheets. For residential MSR's, both servicing fees, which are recognized when they are received, and changes in the fair value of MSR's are reported in Mortgage

Notes to Consolidated Financial Statements, continued

related income in the Consolidated Statements of Income. For commercial mortgage servicing rights, servicing fees, amortization, and any impairment is recognized in Commercial real estate related income in the Consolidated Statements of Income. For all other servicing rights, the related servicing fees, amortization, and any impairment are recognized in Other noninterest income in the Consolidated Statements of Income. For additional information on the Company's servicing rights, see Note 10, "Goodwill and Other Intangible Assets."

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated selling costs. To the extent fair value, less cost to sell, is less than the loan's cost basis, the difference is charged to the ALLL at the date of transfer into OREO. The Company estimates market values based primarily on appraisals and other market information. Pursuant to an asset transfer into OREO, the fair value of the asset, less cost to sell at the date of transfer, becomes the new cost basis of the asset. Any subsequent changes in value as well as gains or losses from the disposition on these assets are recognized in Other noninterest expense in the Consolidated Statements of Income. For additional information on the Company's activities related to OREO, see Note 20, "Fair Value Election and Measurement."

Loan Sales and Securitizations

The Company sells and at times may securitize loans and other financial assets. When the Company securitizes assets, it may hold a portion of the securities issued, including senior interests, subordinated and other residual interests, interest-only strips, and principal-only strips, all of which are considered retained interests in the transferred assets. Retained securitized interests are recognized and initially measured at fair value. The interests in securitized assets held by the Company are typically classified as either securities AFS or trading assets and are measured at fair value. The Company transfers first lien residential mortgage loans in conjunction with Ginnie Mae and GSE securitization transactions, whereby the loans are exchanged for cash or securities that are readily redeemable for cash and servicing rights are retained. Net gains/losses on the sale of residential mortgage LHFS are recorded at inception of the associated IRLCs and reflect the change in value of the loans resulting from changes in interest rates from the time the Company enters into IRLCs with borrowers until the loans are sold, adjusted for pull through rates and excluding hedge transactions initiated to mitigate this market risk. Net gains related to the sale of residential mortgage loans are recorded within Mortgage related income in the Consolidated Statements of Income.

The Company also sells commercial mortgage loans to Fannie Mae and Freddie Mac and issues and sells Ginnie Mae commercial MBS backed by FHA insured loans. The loans and securities are exchanged for cash and servicing rights are retained. Gains and losses from the sale of these commercial mortgage loans and securities are recorded within Commercial real estate related income in the Consolidated Statements of Income. For additional information on the Company's securitization activities, see Note 12, "Certain Transfers of Financial Assets and Variable Interest Entities."

Guarantees

The Company recognizes a liability at the inception of a guarantee at an amount equal to the estimated fair value of the obligation. A guarantee is defined as a contract that contingently requires a company to make a payment to a guaranteed party based upon changes in an underlying asset, liability, or equity security of the guaranteed party, or upon failure of a third party to perform under a specified agreement. The Company considers the following arrangements to be guarantees: certain asset purchase/sale agreements with recourse, standby letters of credit and financial guarantees, certain indemnification agreements included within third party contractual arrangements, and certain derivative contracts. For additional information on the Company's guarantor obligations, see Note 18, "Guarantees."

Derivative Instruments and Hedging Activities

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

Changes in the fair value of derivatives not designated in a hedging relationship are recognized within Noninterest income in the Consolidated Statements of Income. This includes derivatives that the Company enters into in a dealer capacity to facilitate client transactions and as a risk management tool to economically hedge certain identified risks, along with certain IRLCs on residential mortgage and commercial loans that are a normal part of the Company's operations. The Company also evaluates contracts, such as brokered deposits and debt, to determine whether any embedded derivatives are required to be bifurcated and separately accounted for as freestanding derivatives.

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

For designated hedging relationships, subsequent to the initial assessment of hedge effectiveness, the Company generally performs retrospective and prospective effectiveness testing using a qualitative approach. Assessments of hedge effectiveness are performed at least quarterly. Changes in the fair value of a derivative that is highly effective and that has been designated and qualifies as a fair value hedge are recorded in current period

Notes to Consolidated Financial Statements, continued

earnings, in the same line item with the changes in the fair value of the hedged item that are attributable to the hedged risk. The changes in the fair value of a derivative that is highly effective and that has been designated and qualifies as a cash flow hedge is initially recorded in AOCI and reclassified to earnings in the same period that the hedged item impacts earnings. The amount reclassified to earnings is recorded in the same line item as the earnings effect of the hedged item.

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

It is the Company's policy to offset derivative transactions with a single counterparty as well as any cash collateral paid to and received from that counterparty for derivative contracts that are subject to ISDA or other legally enforceable netting arrangements and meet accounting guidance for offsetting treatment. For additional information on the Company's derivative activities, see Note 19, "Derivative Financial Instruments," and Note 20, "Fair Value Election and Measurement."

Fair Value Measurement

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. Depending on the nature of the asset or liability, the Company uses various valuation techniques and assumptions when estimating fair value. The Company prioritizes inputs used in valuation techniques based on the fair value hierarchy discussed in Note 20, "Fair Value Election and Measurement."

When measuring assets and liabilities at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability. Assets and liabilities that are required to be measured at fair value on a recurring basis include trading securities, derivative instruments, securities AFS, and certain other equity securities. Assets and liabilities that the Company has elected to measure at fair value on a recurring basis include trading loans, certain LHFS and LHFI, residential MSRs, brokered time deposits, and certain structured notes and fixed rate issuances included in long-term debt. Other assets and liabilities are measured at fair value on a non-recurring basis, such as when assets are evaluated for impairment, the basis of accounting is LOCOM, or for disclosure purposes. Examples of these non-recurring fair value measurements include certain LHFS and LHFI, OREO, certain cost or equity method investments, and intangible and long-lived assets. For additional information on the Company's valuation

of assets and liabilities held at fair value, see Note 20, "Fair Value Election and Measurement."

Revenue Recognition

In the ordinary course of business, the Company recognizes two primary types of revenue in its Consolidated Statements of Income, Interest income and Noninterest income.

The Company's principal source of revenue is interest income from loans and securities, which is recognized on an accrual basis using the effective interest method. For information on the Company's policies for recognizing interest income on loans and securities, see the "Loans Held for Investment," "Loans Held for Sale," "Trading Activities," and "Securities Available for Sale" sections within this Note.

Noninterest income includes revenue from various types of transactions and services provided to clients. The Company recognizes noninterest income as services are rendered or as transactions occur and as collectability is reasonably assured. For information on the Company's policies for recognizing noninterest income, see Note 2, "Revenue Recognition."

Stock-Based Compensation

The Company sponsors various stock-based compensation plans under which RSUs, restricted stock, and phantom stock units may be granted to certain employees. The Company measures the grant date fair value of the RSUs and restricted stock, which is expensed over the award's vesting period. For service-based awards, compensation expense is amortized on a straight-line basis and recognized in Employee compensation in the Consolidated Statements of Income. Additionally, the Company estimates the number of awards for which it is probable that service will be rendered and adjusts compensation cost accordingly. Estimated forfeitures are subsequently adjusted to reflect actual forfeitures. For performance-based awards, compensation expense is amortized over the vesting period and recognized in Employee compensation in the Consolidated Statements of Income. These performance-based awards may be adjusted based on the estimated outcome of the award's associated performance conditions, which are based on the Company's performance and/or its performance relative to its peers.

The phantom stock units are subject to variable accounting and grant certain employees the contractual right to receive an amount in cash equal to the fair market value of a share of common stock on the specified date set forth in the award agreement, typically the vesting date. For additional information on the Company's stock-based compensation plans, see Note 17, "Employee Benefit Plans."

Employee Benefits

Employee benefits expense includes expenses related to (i) net periodic benefit costs or credits associated with the pension and other postretirement benefit plans, (ii) contributions under the defined contribution plans, (iii) the amortization of restricted stock, (iv) the issuance of phantom stock units, (v) historical stock option issuances, and (vi) other employee medical and benefits costs. For additional information on the Company's employee benefit plans, see Note 17, "Employee Benefit Plans."

Notes to Consolidated Financial Statements, continued

Income Taxes

The Company's provision for income taxes is based on income and expense reported for financial statement purposes after adjustments for permanent differences such as interest income from lending to tax-exempt entities, tax credits, and amortization expense related to qualified affordable housing investments. In computing the provision for income taxes, the Company evaluates the technical merits of its income tax positions based on current legislative, judicial, and regulatory guidance. The deferral method of accounting is used on investments that generate investment tax credits, such that the investment tax credits are recognized as a reduction to the related investment. Additionally, the Company recognizes all excess tax benefits and deficiencies on employee share-based payments as a component of the Provision for income taxes in the Consolidated Statements of Income. These tax effects, generally determined upon the exercise of stock options or vesting of restricted stock, are treated as discrete items in the period in which they occur.

DTAs and DTLs result from differences between the timing of the recognition of assets and liabilities for financial reporting purposes and for income tax purposes. These deferred assets and liabilities are measured using the enacted tax rates and laws that are expected to apply in the periods in which the DTAs or DTLs are expected to be realized. Subsequent changes in the tax laws require adjustment to these deferred assets and liabilities with the cumulative effect included in the Provision for income taxes for the period in which the change is enacted. A valuation allowance is recognized for a DTA, if based on the weight of available evidence, it is more likely than not that some portion or all of the DTA will not be realized.

Interest and penalties related to the Company's tax positions are recognized as a component of the Provision for income taxes in the Consolidated Statements of Income. For additional information on the Company's activities related to income taxes, see Note 16, "Income Taxes."

Earnings Per Share

Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during each period, plus common share equivalents calculated for stock options, warrants, and restricted stock outstanding using the treasury stock method.

The Company has issued certain restricted stock awards, which are unvested share-based payment awards that contain

non-forfeitable rights to dividends or dividend equivalents. These restricted shares are considered participating securities. Accordingly, the Company calculated net income available to common shareholders pursuant to the two-class method, whereby net income is allocated between common shareholders and participating securities. Net income available to common shareholders represents net income after preferred stock dividends, gains or losses from any repurchases of preferred stock, and dividends and allocation of undistributed earnings to the participating securities. For additional information on the Company's EPS, see Note 14, "Net Income Per Common Share."

Foreign Currency Transactions

Foreign denominated assets and liabilities resulting from foreign currency transactions are valued using period end foreign exchange rates and the associated interest income or expense is determined using weighted average exchange rates for the period. The Company may enter into foreign currency derivatives to mitigate its exposure to changes in foreign exchange rates. The derivative contracts are accounted for at fair value on a recurring basis with any resulting gains and losses recorded in Noninterest income in the Consolidated Statements of Income.

Related Party Transactions

The Company periodically enters into transactions with certain of its executive officers, directors, affiliates, trusts, and/or other related parties in its ordinary course of business. The Company is required to disclose material related party transactions, other than certain compensation and other arrangements entered into in the normal course of

business. Information related to the Company's relationships with VIEs and employee benefit plan arrangements is included in the Notes to the Consolidated Financial Statements in this Form 10-K.

Subsequent Events

The Company evaluated events that occurred between December 31, 2018 and the date the accompanying financial statements were issued, and there were no material events, other than those already discussed in Note 25, "Subsequent Event," that would require recognition in the Company's Consolidated Financial Statements or disclosure in the accompanying Notes.

Notes to Consolidated Financial Statements, continued

Accounting Pronouncements

The following table summarizes ASUs issued by the FASB that were adopted during the year ended December 31, 2018 or not yet adopted as of December 31, 2018, 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
<i>Standards Adopted in 2018</i>			
ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606) and subsequent related ASUs	These ASUs comprise ASC Topic 606, <i>Revenue from Contracts with Customers</i> , which supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the ASC. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	January 1, 2018	The Company adopted these ASUs on a modified retrospective basis beginning January 1, 2018. Upon adoption, the Company recognized an immaterial cumulative effect adjustment that resulted in a decrease to the beginning balance of retained earnings as of January 1, 2018. Furthermore, the Company prospectively changed the presentation of certain types of revenue and expenses, such as underwriting revenue within investment banking income which is shown on a gross basis, and certain cash promotions and card network expenses, which were reclassified from noninterest expense to service charges on deposit accounts, card fees, and other charges and fees. The net quantitative impact of these presentation changes decreased both revenue and expenses by \$26 million for the year ended December 31, 2018; however, these presentation changes did not have an impact on net income. Prior period balances have not been restated to reflect these presentation changes. See Note 2, "Revenue Recognition," for disclosures relating to ASC Topic 606.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities; and ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	These ASUs amend ASC Topic 825, <i>Financial Instruments-Overall</i> , and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require most investments in equity securities to be measured at fair value through net income, unless they qualify for a measurement alternative, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. With the exception of disclosure requirements and the application of the measurement alternative for certain equity investments that were applied prospectively, these ASUs were required to be applied on a modified retrospective basis.	January 1, 2018 Early adoption was permitted for the provision related to changes in instrument-specific credit risk for financial liabilities under the FVO.	The Company early adopted the provision related to changes in instrument-specific credit risk beginning January 1, 2016, which resulted in an immaterial cumulative effect adjustment from retained earnings to AOCI. See Note 1, "Significant Accounting Policies," to the Company's 2016 Annual Report on Form 10-K for additional information regarding the early adoption of this provision. Additionally, the Company adopted the remaining provisions of these ASUs beginning January 1, 2018, which resulted in an immaterial cumulative effect adjustment to the beginning balance of retained earnings. In connection with the adoption of these ASUs, an immaterial amount of equity securities previously classified as securities AFS were reclassified to other assets, as the AFS classification is no longer permitted for equity securities under these ASUs. Subsequent to adoption of these ASUs, the Company recognized net gains on certain of its equity investments during the year ended December 31, 2018. For additional information relating to these net gains, see Note 11, "Other Assets," and Note 20, "Fair Value Election and Measurement."

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

Notes to Consolidated Financial Statements, continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
<i>Standards Adopted in 2018 (continued)</i>			
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This ASU amends ASC Topic 230, <i>Statement of Cash Flows</i> , to clarify the classification of certain cash receipts and payments within the Company's Consolidated Statements of Cash Flows. These items include: cash payments for debt prepayment or debt extinguishment costs; cash outflows for the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned and bank-owned life insurance policies; distributions received from equity method investees; and beneficial interests acquired in securitization transactions. The ASU also clarifies that when no specific U.S. GAAP guidance exists and the source of the cash flows are not separately identifiable, the predominant source of cash flow should be used to determine the classification for the item. The ASU must be applied on a retrospective basis.	January 1, 2018	The Company adopted this ASU on a retrospective basis effective January 1, 2018 and changed the presentation of certain cash payments and receipts within its Consolidated Statements of Cash Flows. Specifically, the Company changed the presentation of proceeds from the settlement of bank-owned life insurance policies from operating activities to investing activities. The Company also changed the presentation of cash payments for bank-owned life insurance policy premiums from operating activities to investing activities. Lastly, for contingent consideration payments made more than three months after a business combination, the Company changed the presentation for the portion of the cash payment up to the acquisition date fair value of the contingent consideration as a financing activity and any amount paid in excess of the acquisition date fair value as an operating activity. For the years ended December 31, 2018, 2017, and 2016, the Company reclassified \$202 million, \$127 million, and \$202 million, respectively, of cash payments for bank-owned life insurance policy premiums, as well as \$14 million, \$3 million, and \$17 million, respectively, of proceeds from the settlement of bank-owned life insurance policies from operating activities to investing activities on the Company's Consolidated Statements of Cash Flows. For the year ended December 31, 2016, the Company reclassified \$13 million from investing activities to financing activities and \$10 million from investing activities to operating activities related to contingent consideration payments. There were no contingent consideration payments made for the years ended December 31, 2018 and 2017.
ASU 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting	This ASU amends ASC Topic 718, <i>Stock Compensation</i> , to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting per ASC Topic 718, <i>Stock Compensation</i> . The amendments clarify that modification accounting only applies to an entity if the fair value, vesting conditions, or classification of the award changes as a result of changes in the terms or conditions of a share-based payment award. The ASU should be applied prospectively to awards modified on or after the adoption date.	January 1, 2018	The Company adopted this ASU on January 1, 2018 and upon adoption, the ASU did not have a material impact on the Company's Consolidated Financial Statements or related disclosures.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to	This ASU amends ASC Topic 815, <i>Derivatives and Hedging</i> , 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	January 1, 2019 Early adoption is	The Company early adopted this ASU beginning January 1, 2018 and modified its measurement methodology for certain hedged items designated under fair value hedge relationships. The Company elected to perform its subsequent assessments of

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Accounting for Hedging Activities be presented in the same income statement line as the earnings effect of the hedged item, and the ability to measure the hedged item based on the benchmark interest rate component of the total contractual coupon for fair value hedges. These changes expand the types of risk management strategies eligible for hedge accounting. The ASU also permits entities to qualitatively assert that a hedging relationship was and continues to be highly effective. New incremental disclosures are required for reporting periods subsequent to the date of adoption. All transition requirements and elections should be applied to hedging relationships existing on the date of adoption using a modified retrospective approach.

permitted. hedge effectiveness using a qualitative, rather than a quantitative, approach. The adoption resulted in an immaterial cumulative effect adjustment to the opening balance of retained earnings and a basis adjustment to the related hedged items arising from measuring the hedged items based on the benchmark interest rate component of the total contractual coupon of the fair value hedges. For additional information on the Company's derivative and hedging activities, see Note 19, "Derivative Financial Instruments."

Notes to Consolidated Financial Statements, continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Adopted in 2018 (continued)			
ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from AOCI	This ASU amends ASC Topic 220, <i>Income Statement - Reporting Comprehensive Income</i> , to allow for a reclassification from AOCI to Retained earnings for the tax effects stranded in AOCI as a result of the remeasurement of DTAs and DTLs for the change in the federal corporate tax rate pursuant to the 2017 Tax Act, which was recognized through the income tax provision in 2017. The Company may apply this ASU at the beginning of the period of adoption or retrospectively to all periods in which the 2017 Tax Act is enacted.	January 1, 2019 Early adoption is permitted.	The Company early adopted this ASU beginning January 1, 2018. Upon adoption of this ASU, the Company elected to reclassify \$182 million of stranded tax effects relating to securities AFS, derivative instruments, credit risk on long-term debt, and employee benefit plans from AOCI to retained earnings. This amount was offset by \$28 million of stranded tax effects relating to equity securities previously classified as securities AFS, resulting in a net \$154 million increase to retained earnings.
ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	This ASU amends ASC Subtopic 715-20, <i>Compensation - Retirement Benefits - Defined Benefit Plans - General</i> , to add new disclosure requirements as well as remove certain disclosure requirements to improve the effectiveness of disclosures in the notes to the financial statements. The ASU must be applied on a retrospective basis.	December 31, 2020 Early adoption is permitted.	The Company early adopted this ASU beginning December 31, 2018 and modified its employee benefit plans disclosures accordingly for each of the years ended December 31, 2018, 2017, and 2016. The adoption of this ASU did not have an impact on the Company's Consolidated Financial Statements. See Note 17, "Employee Benefit Plans," for the Company's employee benefit plans disclosures.
Standards Not Yet Adopted			
ASU 2016-02, Leases (ASC Topic 842) and subsequent related ASUs	This ASU creates ASC Topic 842, <i>Leases</i> , which supersedes ASC Topic 840, <i>Leases</i> . 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, <i>Revenue from Contracts with Customers</i> . There are several new qualitative and quantitative disclosures required. Upon transition, lessees and lessors have the option to: - Recognize and measure leases at the beginning of the earliest period presented using a modified retrospective transition approach, or - Apply a modified retrospective transition approach as of the date of adoption.	January 1, 2019 Early adoption is permitted.	The Company formed a cross-functional team to oversee the implementation of this ASU. The Company's implementation included the review of its lease portfolios and related lease accounting policies, the review of its service contracts for embedded leases, and the deployment of a new lease software solution. Additionally, in conjunction with this implementation, the Company reviewed its business processes and evaluated changes to its control environment. The Company adopted this ASU on January 1, 2019, using a modified retrospective transition approach as of the date of adoption, which resulted 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 was based primarily on the present value of unpaid future minimum lease payments, the amount of which is based on the population of leases in effect at the date of adoption. At January 1, 2019, the Company's right-of-use assets and lease liabilities recorded on its Consolidated Balance Sheets upon adoption were \$1.2 billion and \$1.3 billion, respectively. Upon adoption on January 1, 2019, the Company also recognized a cumulative effect adjustment of \$31 million

to increase the beginning balance of retained earnings (as of January 1, 2019) for remaining deferred gains on sale-leaseback transactions that occurred prior to the date of adoption and for other transition provisions. This ASU is not expected to have a material impact on the timing of expense recognition in its Consolidated Statements of Income.

The Company is in the process of developing and completing the required leasing disclosures, which will be included in its first quarter of 2019 Quarterly Report on Form 10-Q.

Notes to Consolidated Financial Statements, continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
<i>Standards Not Yet Adopted (continued)</i>			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments (ASC Topic 326) and subsequent related ASUs	<p>This ASU adds ASC Topic 326, <i>Financial Instruments - Credit Losses</i>, to replace the incurred loss impairment methodology with a current expected credit loss methodology for financial instruments measured at amortized cost and other commitments to extend credit. For this purpose, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is deducted from the amortized cost basis of the financial assets to reflect the net amount expected to be collected on the financial assets. Additional quantitative and qualitative disclosures are required upon adoption. The change to the allowance for credit losses at the time of the adoption will be made with a cumulative effect adjustment to retained earnings.</p> <p>Although the current expected credit loss methodology does not apply to AFS debt securities, the ASU does require entities to record an allowance when recognizing credit losses for AFS securities, rather than recording a direct write-down of the carrying amount.</p>	January 1, 2020	<p>The Company formed a cross-functional team to oversee the implementation of this ASU. A detailed implementation plan has been developed and substantial progress has been made on the identification and staging of data, development and validation of models, refinement of economic forecasting processes, and documentation of accounting policy decisions. Additionally, a new credit loss platform is being implemented to host data and run models in a controlled, automated environment. In conjunction with this implementation, the Company is reviewing business processes and evaluating potential changes to the control environment. The Company plans to perform its parallel runs of its new methodology in 2019 prior to adoption of the ASU.</p> <p>The Company plans to adopt this ASU on January 1, 2020, and it is evaluating the impact that this ASU will have on its Consolidated Financial Statements and related disclosures. The Company currently anticipates that an increase to the allowance for credit losses will be recognized upon adoption to provide for the expected credit losses over the estimated life of the financial assets. The magnitude of the increase will depend on economic conditions and trends in the Company's portfolio at the time of adoption.</p>
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	<p>This ASU amends ASC Topic 350, <i>Intangibles - Goodwill and Other</i>, 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. This ASU requires an entity to recognize an impairment charge for the amount by which a reporting unit's carrying amount exceeds its fair value, with the loss limited to the total amount of goodwill allocated to that reporting unit. The ASU must be applied on a prospective basis.</p>	January 1, 2020	<p>Based on the Company's most recent qualitative goodwill impairment assessment performed as of October 1, 2018, there were no reporting units for which it was more-likely-than-not that the carrying amount of a reporting unit exceeded its respective fair value; therefore, this ASU would not currently have an impact on the Company's Consolidated Financial Statements or related disclosures. However, if upon adoption, which is expected to occur on January 1, 2020, the carrying amount of a reporting unit exceeds its respective fair value, the Company would be required to recognize an impairment charge for the amount that the carrying value exceeds the fair value.</p>
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing	<p>This ASU amends ASC Subtopic 350-40, <i>Intangibles - Goodwill and Other - Internal-Use Software</i>, to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company</p>	January 1, 2020	<p>The Company's current accounting policy for capitalizing implementation costs incurred in a hosting arrangement generally aligns with the requirements of this ASU; therefore, the Company's adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements or related disclosures.</p>

Arrangement That Is a Service Contract may apply this ASU either retrospectively, or prospectively to all implementation costs incurred after the date of adoption.

Notes to Consolidated Financial Statements, continued

NOTE 2 -REVENUE RECOGNITION

Pursuant to the Company's adoption of ASC Topic 606, *Revenue from Contracts with Customers*, the following table reflects the Company's noninterest income disaggregated by the amount of revenue that is in scope and out of scope of ASC Topic 606.

(Dollars in millions)	Year Ended December 31, 2018
Noninterest income	
Revenue in scope of ASC Topic 606	\$1,992
Revenue out of scope of ASC Topic 606	1,234
Total noninterest income	\$3,226

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

policies for recognizing noninterest income, including the nature and timing of such revenue streams. The Company's contracts with customers generally do not contain terms that require significant judgment to determine the amount of revenue to recognize.

(Dollars in millions)	Year Ended December 31, 2018 ¹			Total
	Consumer ²	Wholesale ²	Out of Scope ^{2,3}	
Noninterest income				
Service charges on deposit accounts	\$444	\$135	\$—	\$579
Other charges and fees ^{4,5}	114	12	230	356
Card fees	216	104	4	324
Investment banking income ⁴	—	352	247	599
Trading income	—	—	161	161
Mortgage related income	—	—	342	342
Trust and investment management income	301	—	3	304
Retail investment services ⁶	289	2	1	292
Commercial real estate related income	—	—	134	134
Net securities gains	—	—	1	1
Other noninterest income	23	—	111	134
Total noninterest income	\$1,387	\$605	\$1,234	\$3,226

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

Consumer total noninterest income and Wholesale total noninterest income exclude \$417 million and \$929 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 22, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$112) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

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

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

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- ⁵ The Company recognized an immaterial amount of insurance trailing commissions, the majority of which related to performance obligations satisfied in prior periods.
- ⁶ The Company recognized \$50 million of mutual fund 12b-1 fees and annuity trailing commissions, the majority of which related to performance obligations satisfied in periods prior to December 31, 2018.

Notes to Consolidated Financial Statements, continued

(Dollars in millions)	Year Ended December 31, 2017 ¹			
	Consumer ²	Wholesale ²	Out of Scope ^{2, 3}	Total
Noninterest income				
Service charges on deposit accounts	\$460	\$143	\$—	\$603
Other charges and fees ⁴	124	12	225	361
Card fees	232	108	4	344
Investment banking income ⁴	—	371	252	623
Trading income	—	—	189	189
Mortgage related income	—	—	422	422
Trust and investment management income	302	—	7	309
Retail investment services	275	2	1	278
Commercial real estate related income	—	—	123	123
Net securities losses	—	—	(108)	(108)
Gain on sale of subsidiary	—	—	107	107
Other noninterest income	26	—	77	103
Total noninterest income	\$1,419	\$636	\$1,299	\$3,354

¹ Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, *Revenue Recognition*, and have not been restated to conform with ASC Topic 606, *Revenue from Contracts with Customers*.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$486 million and \$937 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 22, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$124) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

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

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

(Dollars in millions)	Year Ended December 31, 2016 ¹			
	Consumer ²	Wholesale ²	Out of Scope ^{2, 3}	Total
Noninterest income				
Service charges on deposit accounts	\$482	\$148	\$—	\$630
Other charges and fees ⁴	130	11	218	359
Card fees	228	93	6	327
Investment banking income ⁴	—	317	198	515
Trading income	—	—	211	211
Mortgage related income	—	—	555	555
Trust and investment management income	300	—	4	304
Retail investment services	277	3	1	281
Commercial real estate related income	—	—	69	69
Net securities gains	—	—	4	4
Other noninterest income	27	—	101	128
Total noninterest income	\$1,444	\$572	\$1,367	\$3,383

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¹ Amounts for periods prior to January 1, 2018 are presented in accordance with ASC Topic 605, *Revenue Recognition*, and have not been restated to conform with ASC Topic 606, *Revenue from Contracts with Customers*.

² Consumer total noninterest income and Wholesale total noninterest income exclude \$623 million and \$753 million of out of scope noninterest income, respectively, which are included in the business segment results presented on a management accounting basis in Note 22, "Business Segment Reporting." Out of scope total noninterest income includes these amounts and also includes (\$9) million of Corporate Other noninterest income that is not subject to ASC Topic 606.

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

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

Notes to Consolidated Financial Statements, continued

Service Charges on Deposit Accounts

Service charges on deposit accounts represent fees relating to the Company's various deposit products. These fees include account maintenance, cash management, treasury management, wire transfers, overdraft and other deposit-related fees. The Company's execution of the services related to these fees represents its related performance obligations. Each of these performance obligations are either satisfied over time or at a point in time as the services are provided to the customer. The Company is the principal when rendering these services. Payments for services provided are either withdrawn from the customer's account as services are rendered or in the billing period following the completion of the service. The transaction price for each of these fees is based on the Company's predetermined fee schedule.

Other Charges and Fees

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

The Company's execution of the services related to ATM fees, insurance revenue, and miscellaneous service charges represents its related performance obligations. ATM fees and miscellaneous service charges are recognized at a point in time as the services are provided.

Insurance commission revenue is earned through the sale of insurance products. The commissions are recognized as revenue when the customer executes an insurance policy with the insurance carrier. In some cases, the Company receives payment of trailing commissions each year when the customer pays its annual premium.

Card Fees

Card fees consist of interchange fees from credit and debit cards, merchant acquirer revenue, and other card related services. Interchange fees are earned by the Company each time a request for payment is initiated by a customer at a merchant for which the Company transfers the funds on behalf of the customer. Interchange rates are set by the payment network and are based on purchase volumes and other factors. Interchange fees are received daily and recognized at a point in time when the card transaction is processed. The Company is considered an agent of the customer and incurs costs with the payment network to facilitate the interchange with the merchant; therefore, the related payment network expense is recognized as a reduction of card fees. For all periods prior to January 1, 2018, these expenses were recognized in Outside processing and software in the Company's Consolidated Statements of Income. The Company offers rewards and/or rebates to its customers based on card usage. The costs associated with these programs are recognized as a reduction of card fees.

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

merchant acquirer quarterly in the month following the quarter in which the services are rendered.

Investment Banking Income

Investment banking income is comprised primarily of securities underwriting fees, advisory fees, loan syndication fees, and trade execution services revenue. The Company assists corporate clients in raising capital by offering equity or debt securities to potential investors. The underwriting fees are earned on the trade date when the Company, as a member of an underwriting syndicate, purchases the securities from the issuer and sells the securities to third party investors. Each member of the syndicate is responsible for selling its portion of the underwriting and is liable for the proportionate costs of the underwriting; therefore, the Company's portion of underwriting revenue and expense is presented gross within noninterest income and noninterest expense. For all periods prior to January 1, 2018,

underwriting expense was recorded as a reduction of investment banking income. The transaction price is based on a percentage of the total transaction amount and payments are settled shortly after the trade date.

The Company also provides merger and acquisition advisory services, including various activities such as business valuation, identification of potential targets or acquirers, and the issuance of fairness opinions. The Company's execution of these advisory services represents its related performance obligations. The performance obligations relating to advisory services are fulfilled at a point in time upon completion of the contractually specified merger or acquisition. The transaction price is based on contractually specified terms agreed upon with the client for each advisory service.

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

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

Trading Income

The Company recognizes trading income as a result of gains and losses from the sales of trading account assets and liabilities. The Company also recognizes trading income as a result of changes in the fair value of trading account assets and liabilities that it holds. The Company's trading accounts include various types of debt and equity securities, trading loans, and derivative instruments. For additional information relating to trading income, see Note 19, "Derivative Financial Instruments," and Note 20, "Fair Value Election and Measurement."

Mortgage Related Income

Mortgage related income is comprised of mortgage production related income and mortgage servicing related income. Mortgage production related income is comprised primarily of activity related to the sale of consumer mortgage loans as well as loan origination fees such as closing charges, document review fees, application fees, other loan origination fees, and loan processing fees. The Company recognizes as assets the rights to service mortgage loans, either when the loans are sold and the associated servicing rights are retained or when servicing rights are purchased from a third party. Mortgage servicing related

Notes to Consolidated Financial Statements, continued

income includes servicing fees, modification fees, fees for ancillary services, other fees customarily associated with servicing arrangements, gains or losses from hedging, and changes in the fair value of residential MSRs inclusive of decay resulting from the realization of monthly net servicing cash flows. For additional information relating to mortgage related income, see Note 1, "Significant Accounting Policies," Note 10, "Goodwill and Other Intangible Assets," Note 19, "Derivative Financial Instruments," and Note 20, "Fair Value Election and Measurement."

Trust and Investment Management Income

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

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

Retail Investment Services

Retail investment services consists primarily of investment management, selling and distribution services, and trade execution services. The Company's execution of these services represents its related performance obligations.

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

The Company also offers selling and distribution services and earns commissions through the sale of annuity and mutual fund products. The Company acts as an agent in these transactions and recognizes revenue at a point in time when the customer enters into an agreement with the product carrier. The Company may also receive trailing commissions and 12b-1 fees related to mutual fund and annuity products, and recognizes this revenue in the period that they are realized since the revenue cannot be accurately predicted at the time the policy becomes effective.

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

Commercial Real Estate Related Income

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

investments, including the sale of tax credits, gains and losses from the sale of structured real estate, and other fee income. For additional information relating to commercial real estate related income, see Note 1, "Significant Accounting Policies," Note 10, "Goodwill and Other Intangible Assets," Note 19, "Derivative Financial Instruments," and Note 20, "Fair Value Election and Measurement."

Net Securities Gains or Losses

The Company recognizes net securities gains or losses primarily as a result of the sale of securities AFS and the recognition of any OTTI on securities AFS. For additional information relating to net securities gains or losses, see Note 6, "Investment Securities."

Other Noninterest Income

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

Practical Expedients and Other

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

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

At December 31, 2018, the Company does not have any material contract assets, liabilities, or other receivables recorded on its Consolidated Balance Sheets relating to its revenue streams within the scope of ASC Topic 606.

Notes to Consolidated Financial Statements, continued

NOTE 3 - ACQUISITIONS/DISPOSITIONS

During the years ended December 31, 2018, 2017, and 2016, the Company had the following notable acquisition and disposition:

(Dollars in millions)	Date	Consideration Received/(Paid)	Goodwill	Other Intangible Assets	Pre-tax Gain
<u>2017</u>					
Sale of PAC	12/1/2017	\$261	(\$7)	\$—	\$107
<u>2016</u>					
Acquisition of Pillar	12/15/2016	(\$197)	\$1	\$13	¹ \$—

¹ Does not include \$62 million of commercial mortgage servicing rights acquired.

Sale of PAC

In 2017, the Company completed the sale of PAC, its commercial lines insurance premium finance subsidiary with \$1.3 billion in assets and \$1.2 billion in liabilities, to IPFS Corporation. As a result, the Company received consideration of \$261 million and recognized a pre-tax gain of \$107 million in connection with the sale, net of transaction-related expenses.

The Company's results for the years ended December 31, 2017 and 2016 included the following related to PAC, excluding the gain on sale:

(Dollars in millions)

PAC Financial Information:	2017	2016
Revenue	\$56	\$60
Less: Expenses	31	27
Income before provision for income taxes	\$25	\$33

The financial results of PAC through the date of disposition, including the gain on sale, are reflected in the Company's Wholesale business segment for the years ended December 31, 2017 and 2016.

Acquisition of Pillar

In 2016, the Company completed the acquisition of substantially all of the assets of the operating subsidiaries of Pillar Financial, LLC, a multi-family agency lending and servicing company with an originate-to-distribute focus that holds licenses with Fannie Mae, Freddie Mac, and the FHA. The acquired assets include Pillar's multi-family lending business, which is comprised of multi-family affordable housing, health care properties, senior housing, and manufactured housing specialty teams. Additionally, the transaction includes Cohen Financial's commercial real estate investor services business, which provides loan administration, advisory, and commercial mortgage brokerage services.

During the second quarter of 2017, the final settlement amount associated with working capital adjustments was reached and the purchase consideration of \$197 million was finalized.

There were no other material acquisitions or dispositions during the three years ended December 31, 2018.

NOTE 4 - 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)

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	December 31, 2018	December 31, 2017
Fed funds sold	\$42	\$65
Securities borrowed	394	298
Securities purchased under agreements to resell	1,243	1,175
Total Fed funds sold and securities borrowed or purchased under agreements to resell	\$1,679	\$1,538

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

the related counterparty agree on the amount of collateral required to secure the principal amount loaned under these arrangements. The Company monitors collateral values daily and calls for additional collateral to be provided as warranted under the respective agreements. At December 31, 2018 and 2017, the total market value of collateral held was \$1.6 billion and \$1.5 billion, of which \$108 million and \$177 million was repledged, respectively.

Notes to Consolidated Financial Statements, 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)	December 31, 2018				December 31, 2017			
	Overnight and Continuous	to 30 days	30-90 days	Total	Overnight and Continuous	to 30 days	30-90 days	Total
U.S. Treasury securities	\$197	\$7	\$—	\$204	\$95	\$—	\$—	\$95
Federal agency securities	112	10	—	122	101	15	—	116
MBS - agency	881	35	—	916	694	135	—	829
CP	78	—	—	78	19	—	—	19
Corporate and other debt securities	216	158	80	454	316	88	40	444
Total securities sold under agreements to repurchase	\$1,484	\$210	\$80	\$1,774	\$1,225	\$238	\$40	\$1,503

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

Netting of Securities - Repurchase and Resell Agreements

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting agreements or similar agreements are discussed in Note 19, "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 December 31, 2018 and 2017, there were no such transactions subject to legally enforceable MRAs that were eligible for balance sheet netting. The following table includes the amount of collateral pledged or received related to exposures subject to enforceable MRAs. While these agreements are typically over-collateralized, the amount of collateral presented in this table is limited to the amount of the related recognized asset or liability for each counterparty.

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets	Held/Pledged Financial Instruments	Net Amount
December 31, 2018					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,637	\$—	\$1,637	¹ \$1,624	\$13
Financial liabilities:					
Securities sold under agreements to repurchase	1,774	—	1,774	1,774	—
December 31, 2017					
Financial assets:					
Securities borrowed or purchased under agreements to resell	\$1,473	\$—	\$1,473	¹ \$1,462	\$11

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Financial liabilities:

Securities sold under agreements to repurchase	1,503	—	1,503	1,503	—
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¹ Excludes \$42 million and \$65 million of Fed Funds sold, which are not subject to a master netting agreement at December 31, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements, continued**NOTE 5 - 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)	December 31, 2018	December 31, 2017
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	\$262	\$157
Federal agency securities	188	395
U.S. states and political subdivisions	54	61
MBS - agency	860	700
Corporate and other debt securities	700	655
CP	190	118
Equity securities	73	56
Derivative instruments ¹	639	802
Trading loans ²	2,540	2,149
Total trading assets and derivative instruments	\$5,506	\$5,093

Trading Liabilities and Derivative Instruments:

U.S. Treasury securities	\$801	\$577
MBS - agency	3	—
Corporate and other debt securities	385	289
Equity securities	5	9
Derivative instruments ¹	410	408
Total trading liabilities and derivative instruments	\$1,604	\$1,283

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

² Includes loans related to TRS.

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

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

related activities include acting as a market maker for certain debt and equity security transactions, derivative instrument transactions, and foreign exchange transactions. The Company also uses derivatives to manage its interest rate and market risk from non-trading activities. The Company has policies and procedures to manage market risk associated with client trading and non-trading activities, and assumes a limited degree of market risk by managing the size and nature of its exposure. For valuation assumptions and additional information related to the Company's trading products and derivative instruments, see Note 19, "Derivative Financial Instruments," and the "Trading Assets and Derivative Instruments and Investment Securities" section of Note 20, "Fair Value Election and Measurement."

Pledged trading assets are presented in the following table:

(Dollars in millions)

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	December 31,	December 31,
	2018	2017
Pledged trading assets to secure repurchase agreements ¹	\$1,418	\$1,016
Pledged trading assets to secure certain derivative agreements	22	72
Pledged trading assets to secure other arrangements	40	41

¹ Repurchase agreements secured by collateral totaled \$1.4 billion and \$975 million at December 31, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements, continued

NOTE 6 - INVESTMENT SECURITIES***Investment Securities Portfolio Composition***

(Dollars in millions)	December 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities AFS:				
U.S. Treasury securities	\$4,277	\$—	\$66	\$4,211
Federal agency securities	221	2	2	221
U.S. states and political subdivisions	606	4	21	589
MBS - agency residential	23,161	128	425	22,864
MBS - agency commercial	2,688	8	69	2,627
MBS - non-agency commercial	943	—	27	916
Corporate and other debt securities	14	—	—	14
Total securities AFS	\$31,910	\$142	\$610	\$31,442

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

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities AFS to Other assets on the Consolidated Balance Sheets. Prior periods have been revised to conform to the current presentation for comparability. See Note 11, "Other Assets," for additional information.

The following table presents interest on securities AFS:

(Dollars in millions)	Year Ended		
	December 31	2017	2016
Taxable interest	\$830	\$743	\$630
Tax-exempt interest	19	13	6
Total interest on securities AFS ¹	\$849	\$756	\$636

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

Notes to Consolidated Financial Statements, continued

Investment securities pledged to secure public deposits, repurchase agreements, trusts, certain derivative agreements, and other funds had a fair value of \$3.3 billion and \$4.3 billion at December 31, 2018 and 2017, respectively.

The following table presents the amortized cost, fair value, and weighted average yield of the Company's investment securities at December 31, 2018, by remaining contractual maturity, with the exception of MBS, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

(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:					
Securities AFS:					
U.S. Treasury securities	\$315	\$2,646	\$1,316	\$—	\$4,277
Federal agency securities	112	29	8	72	221
U.S. states and political subdivisions	2	81	15	508	606
MBS - agency residential	1,558	3,684	15,962	1,957	23,161
MBS - agency commercial	1	495	1,885	307	2,688
MBS - non-agency commercial	—	12	931	—	943
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$1,988	\$6,961	\$20,117	\$2,844	\$31,910
Fair Value:					
Securities AFS:					
U.S. Treasury securities	\$312	\$2,603	\$1,296	\$—	\$4,211
Federal agency securities	113	29	8	71	221
U.S. states and political subdivisions	2	84	16	487	589
MBS - agency residential	1,607	3,655	15,682	1,920	22,864
MBS - agency commercial	1	483	1,845	298	2,627
MBS - non-agency commercial	—	12	904	—	916
Corporate and other debt securities	—	14	—	—	14
Total securities AFS	\$2,035	\$6,880	\$19,751	\$2,776	\$31,442
Weighted average yield ¹	3.05	% 2.25	% 2.98	% 3.11	% 2.84

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

Notes to Consolidated Financial Statements, continued

Investment Securities in an Unrealized Loss Position

The Company held certain investment securities where amortized cost exceeded fair value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market prices of securities fluctuate. At December 31, 2018, the Company did

not intend to sell these securities nor was it more-likely-than-not that the Company would be required to sell these securities before their anticipated recovery or maturity. The Company reviewed its portfolio for OTTI in accordance with the accounting policies described in Note 1, "Significant Accounting Policies."

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

(Dollars in millions)	December 31, 2018					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹	Fair Value	Unrealized Losses ¹
Temporarily impaired securities AFS:						
U.S. Treasury securities	\$—	\$—	\$4,177	\$66	\$4,177	\$66
Federal agency securities	—	—	63	2	63	2
U.S. states and political subdivisions	49	1	430	20	479	21
MBS - agency residential	1,229	5	15,384	420	16,613	425
MBS - agency commercial	68	—	1,986	69	2,054	69
MBS - non-agency commercial	106	1	773	26	879	27
Corporate and other debt securities	—	—	9	—	9	—
Total temporarily impaired securities AFS	1,452	7	22,822	603	24,274	610
OTTI securities AFS²:						
Total OTTI securities AFS	—	—	—	—	—	—
Total impaired securities AFS	\$1,452	\$7	\$22,822	\$603	\$24,274	\$610

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

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

(Dollars in millions)	December 31, 2017 ¹					
	Less than twelve months		Twelve months or longer		Total	
	Fair Value	Unrealized Losses ²	Fair Value	Unrealized Losses ²	Fair Value	Unrealized Losses ²
Temporarily impaired securities AFS:						
U.S. Treasury securities	\$1,993	\$12	\$841	\$20	\$2,834	\$32
Federal agency securities	23	—	60	1	83	1
U.S. states and political subdivisions	267	3	114	5	381	8
MBS - agency residential	8,095	38	4,708	96	12,803	134
MBS - agency commercial	887	9	915	29	1,802	38
MBS - non-agency commercial	134	1	93	2	227	3
ABS	—	—	4	—	4	—
Corporate and other debt securities	10	—	—	—	10	—
Total temporarily impaired securities AFS	11,409	63	6,735	153	18,144	216
OTTI securities AFS³:						
ABS	—	—	1	—	1	—

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Total OTTI securities AFS	—	—	1	—	1	—
Total impaired securities AFS	\$11,409	\$63	\$6,736	\$153	\$18,145	\$216

¹ Beginning January 1, 2018, the Company reclassified equity securities previously presented in Securities AFS to Other assets on the Consolidated Balance Sheets. Prior periods have been revised to conform to the current presentation for comparability.

² Unrealized losses less than \$0.5 million are presented as zero within the table.

³ OTTI securities AFS are impaired securities for which OTTI credit losses have been previously recognized in earnings.

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

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

Notes to Consolidated Financial Statements, continued***Realized Gains and Losses and Other-Than-Temporarily Impaired Securities***

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

	Year Ended		
	December 31		
(Dollars in millions)	2018	2017	2016
Gross realized gains	\$9	\$3	\$4
Gross realized losses	(8)	(110)	—
OTTI credit losses recognized in earnings	—	(1)	—
Net securities gains/(losses)	\$1	(\$108)	\$4

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

losses on the OTTI security are recognized in earnings and reflect the difference between the present value of cash flows expected to be collected and the amortized cost basis of the security. Subsequent credit losses may be recorded on OTTI securities without a corresponding further decline in fair value when there has been a decline in expected cash flows. See Note 1, "Significant Accounting Policies," for additional information regarding the Company's accounting policy on securities AFS and related impairments.

During the year ended December 31, 2018, there were no credit impairment losses recognized on securities AFS held at the end of the period. During the years ended December 31, 2017 and 2016, credit impairment losses recognized on securities AFS held at the end of each period were immaterial. During the year ended December 31, 2018, the Company sold securities AFS that had accumulated OTTI credit losses of \$23 million and recognized an associated gain on sale of \$6 million in Net securities gains/(losses) on the Consolidated Statements of Income. The accumulated balance of OTTI credit losses recognized in earnings on securities AFS held at period end was zero, \$23 million, and \$23 million at December 31, 2018, 2017, and 2016, respectively.

Notes to Consolidated Financial Statements, continued

NOTE 7 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	December 31,	December 31,
	2018	2017
Commercial loans:		
C&I ¹	\$71,137	\$66,356
CRE	7,265	5,317
Commercial construction	2,538	3,804
Total commercial LHFI	80,940	75,477
Consumer loans:		
Residential mortgages - guaranteed	459	560
Residential mortgages - nonguaranteed ²	28,836	27,136
Residential home equity products	9,468	10,626
Residential construction	184	298
Guaranteed student	7,229	6,633
Other direct	10,615	8,729
Indirect	12,419	12,140
Credit cards	1,689	1,582
Total consumer LHFI	70,899	67,704
LHFI	\$151,839	\$143,181
LHFS ³	\$1,468	\$2,290

¹ Includes \$4.1 billion and \$3.7 billion of lease financing, and \$796 million and \$778 million of installment loans at December 31, 2018 and 2017, respectively.

² Includes \$163 million and \$196 million of LHFI measured at fair value at December 31, 2018 and 2017, respectively.

³ Includes \$1.2 billion and \$1.6 billion of LHFS measured at fair value at December 31, 2018 and 2017, respectively.

Loan Purchases, Sales, and Transfers

(Dollars in millions)	Year Ended December 31	
	2018	2017
Non-routine purchases of LHFI: ¹		
Consumer loans	\$101	\$233
Routine purchases of LHFI: ²		
Consumer loans	2,122	1,729
Loan sales: ^{3,4}		
Commercial loans	170	703
Consumer loans	99	2
Transfers of loans from:		
LHFI to LHFS	532	288
LHFS to LHFI	28	19
LHFI to OREO	62	57

¹ Purchases are episodic in nature and are conducted based on specific business strategies.

² Purchases are routine in nature and are conducted in the normal course of business.

³ Excludes sales of residential and commercial mortgage LHFS conducted in the normal course of business.

⁴ Net gain on loan sales were immaterial during the years ended December 31, 2018 and 2017.

At December 31, 2018 and 2017, the Company had \$28.1 billion and \$24.3 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support \$21.3 billion and \$18.2 billion of available, unused borrowing capacity, respectively.

At December 31, 2018 and 2017, the Company had \$39.2 billion and \$38.0 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support \$31.0 billion and \$30.5 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at December 31, 2018 was used to support \$5.0 billion of long-term debt and \$5.8 billion of letters of credit issued on the Company's behalf. At December 31, 2017, the available FHLB borrowing capacity was used to support \$4 million of long-term debt and \$6.7 billion of letters of credit issued on the Company's behalf.

Credit Quality Evaluation

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

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is an individual loan's risk assessment expressed according to the broad regulatory agency classifications of Pass or Criticized. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets Especially Mentioned (or Special Mention), Substandard, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the Criticized categories is between Criticized accruing (which includes Special Mention and a portion of Substandard) and Criticized nonaccruing (which includes a portion of Substandard as well as Doubtful and Loss). This distinction identifies those relatively higher risk loans for which there is a basis to believe that the Company will not collect all amounts due under those loan agreements. The Company's risk rating system is more granular, with multiple risk ratings in both the Pass and Criticized categories. Pass ratings reflect relatively low PDs; whereas, Criticized assets have higher PDs. The granularity in Pass ratings assists in establishing pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. Commercial risk ratings are refreshed at least annually, or more frequently as appropriate, based upon considerations such as market conditions, borrower characteristics, and portfolio trends. Additionally, management routinely reviews portfolio risk ratings, trends, and concentrations to support risk identification and mitigation activities. As reflected in the following risk rating table, the increases in Pass and Criticized accruing C&I loans at December 31, 2018 compared to