SUNTRUST BANKS INC
Form 10-Q
August 04, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

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

Georgia	58-1575035
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

303 Peachtree Street, N.E., Atlanta, Georgia 30308
(Address of principal executive offices) (Zip Code)
(800) 786-8787
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

At July 28, 2016, 495,738,819 shares of the registrant’s common stock, $1.00 par value, were outstanding.

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GLOSSARY OF DEFINED TERMS

ABS — Asset-backed securities.
ACH — Automated clearing house.
AFS — Available for sale.
AIP — Annual Incentive Plan.
ALCO — Asset/Liability Committee.
ALM — Asset/Liability Management.
ALLL — Allowance for loan and lease losses.
AOCI — Accumulated other comprehensive income.
APIC — Additional paid-in capital.
ASC — Accounting Standards Codification.
ASU — Accounting Standards Update.
ATE — Additional termination event.
ATM — Automated teller machine.
Bank — SunTrust Bank.
Basel III — the Third Basel Accord, a comprehensive set of reform measures developed by the BCBS.
BCBS — Basel Committee on Banking Supervision.
Board — The Company's Board of Directors.
bps — Basis points.
BRC — Board Risk Committee.
CCAR — Comprehensive Capital Analysis and Review.
CCB — Capital conservation buffer.
CD — Certificate of deposit.
CDR — Conditional default rate.
CDS — Credit default swaps.
CECL — Current expected credit loss.
CEO — Chief Executive Officer.
CET1 — Common Equity Tier 1 Capital.
CFO — Chief Financial Officer.
CIB — Corporate and investment banking.
C&I — Commercial and industrial.
Class A shares — Visa Inc. Class A common stock.
Class B shares — Visa Inc. Class B common stock.
CLO — Collateralized loan obligation.
Company — SunTrust Banks, Inc.
CP — Commercial paper.
CPR — Conditional prepayment rate.
CRE — Commercial real estate.
CRO — Chief Risk Officer.
CSA — Credit support annex.
CVA — Credit valuation adjustment.
DDA — Demand deposit account.
DOJ — Department of Justice.
DTA — Deferred tax asset.
DVA — Debit valuation adjustment.
EPS — Earnings per share.
ER — Enterprise Risk.
ERISA — Employee Retirement Income Security Act of 1974.
Exchange Act — Securities Exchange Act of 1934.

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

FICO — Fair Isaac Corporation.
Fitch — Fitch Ratings Ltd.
FRB — Federal Reserve Board.
FTE — Fully taxable-equivalent.
FVO — Fair value option.
GenSpring — GenSpring Family Offices, LLC.
Ginnie Mae — Government National Mortgage Association.
GSE — Government-sponsored enterprise.
HAMP — Home Affordable Modification Program.
HUD — U.S. Department of Housing and Urban Development.
IPO — Initial public offering.
IRLC — Interest rate lock commitment.
ISDA — International Swaps and Derivatives Association.
LCR — Liquidity coverage ratio.
LGD — Loss given default.
LHFI — Loans held for investment.
LHFS — Loans held for sale.
LIBOR — London InterBank Offered Rate.
LOCOM — Lower of cost or market.
LTI — Long-term incentive.
LTV— Loan to value.
MasterCard — MasterCard International.
MBS — Mortgage-backed securities.
MD&A — Management's Discussion and Analysis of Financial Condition and Results of Operation.
Moody's — Moody's Investors Service.
MRA — Master Repurchase Agreement.
MRM — Market Risk Management.
MRMG — Model Risk Management Group.
MSR — Mortgage servicing right.
MVE — Market value of equity.
NOW — Negotiable order of withdrawal account.
NPA — Nonperforming asset.
NPL — Nonperforming loan.
OCI — Other comprehensive income.
OREO — Other real estate owned.
OTC — Over-the-counter.
OTTI — Other-than-temporary impairment.
Parent Company — SunTrust Banks, Inc. (the parent Company of SunTrust Bank and other subsidiaries).
PD — Probability of default.
PWM — Private Wealth Management.
ROA — Return on average total assets.
ROE — Return on average common shareholders' equity.
ROTCE — Return on average tangible common shareholders' equity.

RSU — Restricted stock unit.
RWA — Risk-weighted assets.
S&P — Standard and Poor’s.
SBA — Small Business Administration.
SEC — U.S. Securities and Exchange Commission.
STCC — SunTrust Community Capital, LLC.
STIS — SunTrust Investment Services, Inc.
STM — SunTrust Mortgage, Inc.
STRH — SunTrust Robinson Humphrey, Inc.
SunTrust — SunTrust Banks, Inc.

TDR — Troubled debt restructuring.
TRS — Total return swaps.
U.S. — United States.
U.S. GAAP — Generally Accepted Accounting Principles in the United States.
U.S. Treasury — The United States Department of the Treasury.
UPB — Unpaid principal balance.
VA —Veterans Administration.

VAR —Value at risk.
VI — Variable interest.
VIE — Variable interest entity.
Visa — The Visa, U.S.A. Inc. card association or its affiliates, collectively.
Visa Counterparty — A financial institution that purchased the Company's Visa Class B shares.

PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

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

(Dollars in millions and shares in thousands, except per share data) (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	$1,222	$1,115	$2,424	$2,206
Interest and fees on loans held for sale	18	23	37	45
Interest and dividends on securities available for sale	161	137	324	277
Trading account interest and other	23	22	49	41
Total interest income	1,424	1,297	2,834	2,569
Interest Expense				
Interest on deposits	63	55	121	110
Interest on long-term debt	64	67	123	136
Interest on other borrowings	9	8	21	16
Total interest expense	136	130	265	262
Net interest income	1,288	1,167	2,569	2,307
Provision for credit losses	146	26	246	82
Net interest income after provision for credit losses	1,142	1,141	2,323	2,225
Noninterest Income				
Service charges on deposit accounts	162	156	315	308
Other charges and fees	104	99	197	188
Card fees	83	84	160	164
Investment banking income	126	145	225	242
Trading income	34	54	89	109
Trust and investment management income	75	84	150	168
Retail investment services	72	80	141	152
Mortgage production related income	111	76	171	159
Mortgage servicing related income	52	30	114	73
Gain on sale of premises	52	—	52	—
Net securities gains	4	14	4	14
Other noninterest income	23	52	62	115
Total noninterest income	898	874	1,680	1,692
Noninterest Expense				
Employee compensation	669	653	1,307	1,285
Employee benefits	94	103	229	242
Outside processing and software	202	204	400	394
Net occupancy expense	78	85	163	169
Equipment expense	42	42	82	82
Marketing and customer development	38	34	82	61
Regulatory assessments	44	35	80	72
Operating losses	25	16	50	30
Credit and collection services	18	25	30	43
Amortization	11	7	21	13
Other noninterest expense	124	124	219	217
Total noninterest expense	1,345	1,328	2,663	2,608
Income before provision for income taxes	695	687	1,340	1,309

Provision for income taxes	201	202	396	393
Net income including income attributable to noncontrolling interest	494	485	944	916
Net income attributable to noncontrolling interest	2	2	5	4
Net income	$492	$483	$939	$912
Net income available to common shareholders	$475	$467	$906	$877
Net income per average common share:				
Diluted	$0.94	$0.89	$1.78	$1.67
Basic	0.95	0.90	1.80	1.69
Dividends declared per common share	0.24	0.24	0.48	0.44
Average common shares - diluted	505,633	522,479	508,012	524,646
Average common shares - basic	501,374	516,968	503,428	518,983

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Comprehensive Income

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions) (Unaudited)	2016	2015	2016	2015
Net income	$492	$483	$939	$912
Components of other comprehensive income/(loss):				
Change in net unrealized gains/(losses) on securities available for sale, net of tax of $81, ($117), $246 and ($64), respectively	136	(201)	415	(115)
Change in net unrealized gains/(losses) on derivative instruments, net of tax of $43, ($20), $133, and $7, respectively	73	(34)	223	10
Change in credit risk adjustment on long-term debt, net of tax of $0, $0, ($1), and $0, respectively [1]	—	—	(2)	—
Change related to employee benefit plans, net of tax of $2, ($2), $37, and ($45), respectively	3	6	62	(67)
Total other comprehensive income/(loss), net of tax	212	(229)	698	(172)
Total comprehensive income	$704	$254	$1,637	$740

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Balance Sheets

(Dollars in millions and shares in thousands, except per share data)	June 30, 2016	December 31, 2015
Assets	(Unaudited)	
Cash and due from banks	$4,134	$4,299
Federal funds sold and securities borrowed or purchased under agreements to resell	1,107	1,277
Interest-bearing deposits in other banks	24	23
Cash and cash equivalents	5,265	5,599
Trading assets and derivative instruments [1]	6,850	6,119
Securities available for sale	29,336	27,825
Loans held for sale ($2,176 and $1,494 at fair value at June 30, 2016 and December 31, 2015, respectively)	2,468	1,838
Loans [2] ($246 and $257 at fair value at June 30, 2016 and December 31, 2015, respectively)	141,656	136,442
Allowance for loan and lease losses	(1,774)	(1,752)
Net loans	139,882	134,690
Premises and equipment, net	1,474	1,502
Goodwill	6,337	6,337
Other intangible assets (MSRs at fair value: $1,061 and $1,307 at June 30, 2016 and December 31, 2015, respectively)	1,075	1,325
Other assets	6,205	5,582
Total assets	$198,892	$190,817
Liabilities		
Noninterest-bearing deposits	$42,466	$42,272
Interest-bearing deposits (CDs at fair value: $49 and $0 at June 30, 2016 and December 31, 2015, respectively)	110,285	107,558
Total deposits	152,751	149,830
Funds purchased	1,352	1,949
Securities sold under agreements to repurchase	1,622	1,654
Other short-term borrowings	1,883	1,024
Long-term debt [3] ($970 and $973 at fair value at June 30, 2016 and December 31, 2015, respectively)	12,264	8,462
Trading liabilities and derivative instruments	1,245	1,263
Other liabilities	3,311	3,198
Total liabilities	174,428	167,380
Shareholders' Equity		
Preferred stock, no par value	1,225	1,225
Common stock, $1.00 par value	550	550
Additional paid-in capital	9,003	9,094
Retained earnings	15,353	14,686
Treasury stock, at cost, and other [4]	(1,900)	(1,658)
Accumulated other comprehensive income/(loss), net of tax	233	(460)
Total shareholders' equity	24,464	23,437
Total liabilities and shareholders' equity	$198,892	$190,817
Common shares outstanding [5]	501,412	508,712
Common shares authorized	750,000	750,000
Preferred shares outstanding	12	12

Preferred shares authorized	50,000	50,000
Treasury shares of common stock	48,509	41,209

[1] Includes trading securities pledged as collateral where counterparties have the right to sell or repledge the collateral	$1,282	$1,377
[2] Includes loans of consolidated VIEs	227	246
[3] Includes debt of consolidated VIEs	240	259
[4] Includes noncontrolling interest	103	108
[5] Includes restricted shares	49	1,334

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Shareholders' Equity

(Dollars and shares in millions, except per share data) (Unaudited)	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock and Other [1]	Accumulated Other Comprehensive (Loss)/Income	Total
Balance, January 1, 2015	$1,225	525	$550	$9,089	$13,295	($1,032)	($122)	$23,005
Net income	—	—	—	—	912	—	—	912
Other comprehensive loss	—	—	—	—	—	—	(172)	(172)
Common stock dividends, $0.44 per share	—	—	—	—	(229)	—	—	(229)
Preferred stock dividends [2]	—	—	—	—	(32)	—	—	(32)
Repurchase of common stock	—	(7)	—	—	—	(290)	—	(290)
Exercise of stock options and stock compensation expense	—	—	—	(14)	—	22	—	8
Restricted stock activity	—	—	—	5	(2)	7	—	10
Amortization of restricted stock compensation	—	—	—	—	—	9	—	9
Issuance of stock for employee benefit plans and other	—	—	—	—	—	2	—	2
Balance, June 30, 2015	$1,225	518	$550	$9,080	$13,944	($1,282)	($294)	$23,223
Balance, January 1, 2016	$1,225	509	$550	$9,094	$14,686	($1,658)	($460)	$23,437
Cumulative effect of credit risk adjustment [3]	—	—	—	—	5	—	(5)	—
Net income	—	—	—	—	939	—	—	939
Other comprehensive income	—	—	—	—	—	—	698	698
Change in noncontrolling interest	—	—	—	—	—	(5)	—	(5)
Common stock dividends, $0.48 per share	—	—	—	—	(241)	—	—	(241)
Preferred stock dividends [2]	—	—	—	—	(33)	—	—	(33)
Repurchase of common stock	—	(9)	—	—	—	(326)	—	(326)
Repurchase of common stock warrants	—	—	—	(24)	—	—	—	(24)
Exercise of stock options and stock compensation expense [4]	—	—	—	(22)	—	33	—	11
Restricted stock activity [4]	—	1	—	(45)	(3)	54	—	6
Amortization of restricted stock compensation	—	—	—	—	—	2	—	2
Balance, June 30, 2016	$1,225	501	$550	$9,003	$15,353	($1,900)	$233	$24,464

[1] At June 30, 2016, includes ($2,003) million for treasury stock, $0 million for the compensation element of restricted stock, and $103 million for noncontrolling interest.
At June 30, 2015, includes ($1,379) million for treasury stock, ($11) million for the compensation element of restricted stock, and $108 million for noncontrolling interest.
[2] For the six months ended June 30, 2016, dividends were $2,033 per share for both Perpetual Preferred Stock Series A and B, $2,938 per share for Perpetual Preferred Stock Series E, and $2,813 per share for Perpetual Preferred Stock Series F.
For the six months ended June 30, 2015, dividends were $2,022 per share for both Perpetual Preferred Stock Series A and B, $2,938 per share for Perpetual Preferred Stock Series E, and $3,406 per share for Perpetual Preferred Stock Series F.

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

See accompanying Notes to Consolidated Financial Statements (unaudited).

SunTrust Banks, Inc.
Consolidated Statements of Cash Flows

	Six Months Ended June 30	
(Dollars in millions) (Unaudited)	2016	2015
Cash Flows from Operating Activities		
Net income including income attributable to noncontrolling interest	$944	$916
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation, amortization, and accretion	349	404
Origination of mortgage servicing rights	(110)	(117)
Provisions for credit losses and foreclosed property	249	87
Stock-based compensation	56	49
Excess tax benefits from stock-based compensation	(14)	(17)
Net securities gains	(4)	(14)
Net gain on sale of loans held for sale, loans, and other assets	(241)	(114)
Net (increase)/decrease in loans held for sale	(472)	191
Net increase in trading assets	(372)	(220)
Net increase in other assets [1]	(61)	(310)
Net decrease in other liabilities [1]	(345)	(45)
Net cash (used in)/provided by operating activities	(21)	810
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and paydowns of securities available for sale	2,283	3,194
Proceeds from sales of securities available for sale	—	1,477
Purchases of securities available for sale	(3,400)	(5,302)
Net increase in loans, including purchases of loans	(5,777)	(894)
Proceeds from sales of loans	278	1,886
Purchases of mortgage servicing rights	(75)	(112)
Capital expenditures	(66)	(36)
Payments related to acquisitions, including contingent consideration	(23)	(30)
Proceeds from the sale of other real estate owned and other assets	118	126
Net cash (used in)/provided by investing activities	(6,662)	309
Cash Flows from Financing Activities		
Net increase in total deposits	2,921	4,370
Net increase/(decrease) in funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	230	(3,069)
Proceeds from issuance of long-term debt and other	4,892	1,195
Repayments of long-term debt	(1,034)	(3,987)
Repurchase of common stock	(326)	(290)
Repurchase of common stock warrants	(24)	—
Common and preferred dividends paid	(274)	(261)
Taxes paid related to net share settlement of equity awards [1]	(46)	(31)
Proceeds from exercise of stock options [1]	10	13
Net cash provided by/(used in) financing activities	6,349	(2,060)
Net decrease in cash and cash equivalents	(334)	(941)
Cash and cash equivalents at beginning of period	5,599	8,229
Cash and cash equivalents at end of period	$5,265	$7,288

Supplemental Disclosures:		
Loans transferred from loans held for sale to loans	$10	$651
Loans transferred from loans to loans held for sale	162	1,696
Loans transferred from loans and loans held for sale to other real estate owned	29	35
Non-cash impact of debt assumed by purchaser in lease sale	74	190

[1] Related to the Company's early adoption of ASU 2016-09, certain prior period amounts have been retrospectively reclassified between operating activities and financing activities. See Note 1, "Significant Accounting Policies," for additional information.

See accompanying Notes to Consolidated Financial Statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The unaudited Consolidated Financial Statements have been prepared in accordance with U.S. GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete, consolidated financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes; actual results

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

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

The Company evaluated events that occurred subsequent to June 30, 2016, and there were no material events that would require recognition in the Company's Consolidated Financial Statements or disclosure in the accompanying Notes for the three and six months ended June 30, 2016.

Recently Issued Accounting Pronouncements

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

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
Standards Adopted (or partially adopted) in 2016			
ASU 2015-02, Amendments to the Consolidation Analysis	The ASU rescinds the indefinite deferral of previous amendments to ASC Topic 810, Consolidation, for certain entities and amends components of the consolidation analysis under ASC Topic 810, including evaluating limited partnerships and similar legal entities, evaluating fees paid to a decision maker or service provider as a variable interest, the effects of fee arrangements and/or related parties on the primary beneficiary determination and investment fund specific matters. The ASU may be adopted either retrospectively or on a modified retrospective basis.	January 1, 2016	The Company adopted this ASU on a modified retrospective basis beginning January 1, 2016. The adoption of this standard had no impact to the Consolidated Financial Statements.
ASU 2016-01, Recognition and Measurement of Financial Assets	The ASU amends ASC Topic 825, Financial Instruments-Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure	January 1, 2018 Early adoption is permitted beginning	The Company early adopted the provision related to changes in instrument-specific credit risk beginning January 1, 2016,

and Financial Liabilities	of financial instruments. The main provisions require investments in equity securities to be measured at fair value through net income, unless they qualify for a practicability exception, and require fair value changes arising from changes in instrument-specific credit risk for financial liabilities that are measured under the fair value option to be recognized in other comprehensive income. With the exception of disclosure requirements that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.	January 1, 2016 or 2017 for the provision related to changes in instrument-specific credit risk for financial liabilities under the FVO.	which resulted in an immaterial, cumulative effect adjustment from retained earnings to AOCI. The Company is evaluating the impact of the remaining provisions of this ASU on the Consolidated Financial Statements and related disclosures; however, the impact is not expected to be material.

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Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	The ASU amends ASC Topic 718, Compensation-Stock Compensation, which simplifies several aspects of the accounting for employee share-based payments transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Adoption methods are specific to the component of the ASU, ranging from a retrospective and modified retrospective basis to a prospective basis.	January 1, 2017 Early adoption is permitted.	The Company early adopted the ASU on April 1, 2016 with an effective date of January 1, 2016, which resulted in a reclassification of $4 million from APIC to provision for income taxes, representing excess tax benefits previously recognized in APIC during the first quarter of 2016. During the second quarter of 2016 the Company recognized a benefit of $6 million in provision for income taxes for excess tax benefits that occurred between April 1, 2016 and June 30, 2016. The early adoption favorably impacted both basic and diluted EPS by $0.01 and $0.02 per share for the three and six months ended June 30, 2016, respectively. The Company retrospectively reclassified $17 million of excess tax benefits from financing activities to operating activities in the Consolidated Statements of Cash Flows and retrospectively reclassified $31 million of taxes paid related to net share settlement of equity awards from operating activities to financing activities. The net impact on the Consolidated Statements of Cash Flows was immaterial. The Company had no previously unrecognized excess tax benefits; therefore, there was no impact to the Consolidated Financial Statements as it related to the elimination of the requirement that excess tax benefits be realized before recognition. The Company elected to retain its existing accounting policy election to estimate award forfeitures.

Standards Not Yet Adopted			
ASU 2014-09, Revenue from Contracts with Customers ASU 2016-08, Principal versus Agent Considerations ASU 2016-10, Identifying Performance Obligations and Licensing ASU 2016-12, Narrow-Scope Improvements and Practical Expedients	These ASUs supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of the ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASUs may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts, with remaining performance obligations as of the effective date.	January 1, 2018 Early adoption is permitted beginning January 1, 2017.	The Company is evaluating the alternative methods of adoption and the anticipated effects on the Consolidated Financial Statements and related disclosures.
ASU 2016-02, Leases	The ASU creates ASC Topic 842, Leases, and supersedes Topic 840, Leases. Topic 842 requires lessees to recognize the right-of-use assets and liabilities that arise from leases, with the exception of short-term leases. The ASU does not make significant changes to lessor accounting; however, there were certain improvements made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. There are several new qualitative and quantitative disclosures required. Upon transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.	January 1, 2019 Early adoption is permitted.	The adoption of this ASU will result in an increase to the Consolidated Balance Sheets for right-of-use assets and lease liabilities associated with operating leases in which the Company is the lessee. The Company is evaluating the other effects of adoption on the Consolidated Financial Statements and related disclosures.

Notes to Consolidated Financial Statements (Unaudited), continued

Standard	Description	Required Date of Adoption	Effect on the Financial Statements or Other Significant Matters
ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting	The ASU amends ASC Topic 323, Investments-Equity Method and Joint Ventures, to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investor obtains significant influence over the investee. In addition, if the investor previously held an AFS equity security, the ASU requires that the investor recognize through earnings the unrealized holding gain or loss in AOCI, as of the date it obtains significant influence. The ASU is to be applied on a prospective basis.	January 1, 2017 Early application is permitted.	This ASU will not impact the Consolidated Financial Statements and related disclosures until there is an applicable increase in investment or change in influence resulting in a transition to the equity method.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	The ASU amends ASC Topic 326, Financial Instruments-Credit Losses, to replace the incurred loss impairment methodology with a current expected credit loss methodology for financial instruments measured at amortized cost and other commitments to extend credit. For this purpose, expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption. The CECL model does not apply to AFS debt securities; however the ASU requires entities to record an allowance when recognizing credit losses for AFS securities, rather than recording a direct write-down of the carrying amount.	January 1, 2020 Early adoption is permitted beginning January 1, 2019.	The Company is evaluating the impact the ASU will have on the Company's Consolidated Financial Statements and related disclosures.

NOTE 2 - FEDERAL FUNDS SOLD AND SECURITIES FINANCING ACTIVITIES

Federal Funds Sold and Securities Borrowed or Purchased Under Agreements to Resell

Fed funds sold and securities borrowed or purchased under agreements to resell were as follows:

(Dollars in millions)	June 30, 2016	December 31, 2015
Fed funds sold	$5	$38
Securities borrowed	332	277
Securities purchased under agreements to resell	770	962
Total Fed funds sold and securities borrowed or purchased under agreements to resell	$1,107	$1,277

Securities purchased under agreements to resell are primarily collateralized by U.S. government or agency securities and are carried at the amounts at which the securities will be

subsequently resold. Securities borrowed are primarily collateralized by corporate securities. The Company borrows securities and purchases securities under agreements to resell as part of its securities financing activities. On the acquisition date of these securities, the Company and the related counterparty agree on the amount of collateral required to secure the principal amount loaned under these arrangements. The Company monitors collateral values daily and calls for additional collateral to be provided as warranted under the respective agreements. At June 30, 2016 and December 31, 2015, the total market value of collateral held was $1.1 billion and $1.2 billion, of which $215 million and $73 million was repledged, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

Securities Sold Under Agreements to Repurchase

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

(Dollars in millions)	June 30, 2016 Overnight and Continuous	Up to 30 days	Total	December 31, 2015 Overnight and Continuous	Up to 30 days	Total
U.S. Treasury securities	$3	$—	$3	$112	$—	$112
Federal agency securities	164	—	164	319	—	319
MBS - agency	993	13	1,006	837	23	860
CP	116	—	116	49	—	49
Corporate and other debt securities	239	94	333	242	72	314
Total securities sold under agreements to repurchase	$1,515	$107	$1,622	$1,559	$95	$1,654

For these securities sold under agreements to repurchase, the Company would be obligated to provide additional collateral in the event of a significant decline in fair value of the collateral pledged. This risk is managed by monitoring the liquidity and credit quality of the collateral, as well as the maturity profile of the transactions.

Netting of Securities - Repurchase and Resell Agreements

The Company has various financial assets and financial liabilities that are subject to enforceable master netting agreements or similar agreements. The Company's derivatives that are subject to enforceable master netting agreements or similar agreements are discussed in Note 13, "Derivative Financial Instruments." The following table presents the

Company's securities borrowed or purchased under agreements to resell and securities sold under agreements to repurchase that are subject to MRAs. At June 30, 2016 and December 31, 2015, there were no such transactions subject to legally enforceable MRAs that were eligible for balance sheet netting.

Financial instrument collateral received or pledged related to exposures subject to legally enforceable MRAs are not netted on the Consolidated Balance Sheets, but are presented in the following table as a reduction to the net amount reflected on the Consolidated Balance Sheets to derive the held/pledged financial instruments. The collateral amounts held/pledged are limited for presentation purposes to the related recognized asset/liability balance for each counterparty, and accordingly, do not include excess collateral received/pledged.

(Dollars in millions)	Gross Amount	Amount Offset	Net Amount Presented in Consolidated Balance Sheets		Held/Pledged Financial Instruments	Net Amount
June 30, 2016						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,102	$—	$1,102	[1]	$1,092	$10
Financial liabilities:						
Securities sold under agreements to repurchase	1,622	—	1,622		1,622	—
December 31, 2015						
Financial assets:						
Securities borrowed or purchased under agreements to resell	$1,239	$—	$1,239	[1]	$1,229	$10

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

[1] Excludes $5 million and $38 million of Fed funds sold, which are not subject to a master netting agreement at June 30, 2016 and December 31, 2015, respectively.

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NOTE 3 - TRADING ASSETS AND LIABILITIES AND DERIVATIVE INSTRUMENTS

The fair values of the components of trading assets and liabilities and derivative instruments were as follows:

(Dollars in millions)	June 30, 2016	December 31, 2015
Trading Assets and Derivative Instruments:		
U.S. Treasury securities	$531	$538
Federal agency securities	396	588
U.S. states and political subdivisions	54	30
MBS - agency	826	553
CLO securities	3	2
Corporate and other debt securities	499	468
CP	139	67
Equity securities	53	66
Derivative instruments [1]	1,669	1,152
Trading loans [2]	2,680	2,655
Total trading assets and derivative instruments	$6,850	$6,119
Trading Liabilities and Derivative Instruments:		
U.S. Treasury securities	$473	$503
MBS - agency	3	37
Corporate and other debt securities	311	259
Derivative instruments [1]	458	464
Total trading liabilities and derivative instruments	$1,245	$1,263

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

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

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

Pledged trading assets are presented in the following table:

(Dollars in millions)	June 30, 2016	December 31, 2015
Pledged trading assets to secure repurchase agreements [1]	$821	$986
Pledged trading assets to secure derivative agreements	467	393
Pledged trading assets to secure other arrangements	40	40

[1] Repurchase agreements secured by collateral totaled $787 million and $950 million at June 30, 2016 and December 31, 2015, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 4 – SECURITIES AVAILABLE FOR SALE

Securities Portfolio Composition

	June 30, 2016			
(Dollars in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities	$4,273	$168	$—	$4,441
Federal agency securities	361	11	—	372
U.S. states and political subdivisions	164	11	—	175
MBS - agency	22,800	727	3	23,524
MBS - non-agency residential	82	1	—	83
ABS	9	2	—	11
Corporate and other debt securities	35	1	—	36
Other equity securities [1]	694	1	1	694
Total securities AFS	$28,418	$922	$4	$29,336

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

[1] At June 30, 2016, the fair value of other equity securities was comprised of the following: $202 million of FHLB of Atlanta stock, $402 million of Federal Reserve Bank of Atlanta stock, $84 million of mutual fund investments, and $6 million of other.

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

The following table presents interest and dividends on securities AFS:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Taxable interest	$156	$126	$315	$254
Tax-exempt interest	2	2	3	4
Dividends	3	9	6	19
Total interest and dividends on securities AFS	$161	$137	$324	$277

Securities AFS pledged to secure public deposits, repurchase agreements, trusts, and other funds had a fair value of $4.6 billion and $3.2 billion at June 30, 2016 and December 31, 2015, respectively.

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Notes to Consolidated Financial Statements (Unaudited), continued

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

	Distribution of Remaining Maturities				
(Dollars in millions)	Due in 1 Year or Less	Due After 1 Year through 5 Years	Due After 5 Years through 10 Years	Due After 10 Years	Total
Amortized Cost:					
U.S. Treasury securities	$—	$1,646	$2,627	$—	$4,273
Federal agency securities	145	91	13	112	361
U.S. states and political subdivisions	26	16	89	33	164
MBS - agency	2,174	9,671	10,498	457	22,800
MBS - non-agency residential	—	82	—	—	82
ABS	1	8	—	—	9
Corporate and other debt securities	—	35	—	—	35
Total debt securities AFS	$2,346	$11,549	$13,227	$602	$27,724
Fair Value:					
U.S. Treasury securities	$—	$1,685	$2,756	$—	$4,441
Federal agency securities	146	98	13	115	372
U.S. states and political subdivisions	26	17	98	34	175
MBS - agency	2,285	10,009	10,761	469	23,524
MBS - non-agency residential	—	83	—	—	83
ABS	1	10	—	—	11
Corporate and other debt securities	—	36	—	—	36
Total debt securities AFS	$2,458	$11,938	$13,628	$618	$28,642
Weighted average yield [1]	2.50 %	2.40 %	2.56 %	3.04 %	2.50 %

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

Securities AFS in an Unrealized Loss Position

The Company held certain investment securities AFS where amortized cost exceeded fair value, resulting in unrealized loss positions. Market changes in interest rates and credit spreads may result in temporary unrealized losses as the market prices of securities fluctuate. At June 30, 2016, the Company did not intend to sell these securities nor was it more-likely-than-not that

the Company would be required to sell these securities before their anticipated recovery or maturity. The Company reviewed its portfolio for OTTI in accordance with the accounting policies described in Note 1, "Significant Accounting Policies," of the Company's 2015 Annual Report on Form 10-K.

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

	June 30, 2016					
	Less than twelve months		Twelve months or longer		Total	
(Dollars in millions)	Fair Value	Unrealized Losses [2]	Fair Value	Unrealized Losses [2]	Fair Value	Unrealized Losses [2]
Temporarily impaired securities AFS:						

Federal agency securities	$—	$—	$3	$—	$3	$—
MBS - agency	438	1	398	2	836	3
ABS	—	—	6	—	6	—
Other equity securities	4	1	—	—	4	1
Total temporarily impaired securities AFS	442	2	407	2	849	4
OTTI securities AFS [1]:						
MBS - non-agency residential	48	—	—	—	48	—
ABS	1	—	—	—	1	—
Total OTTI securities AFS	49	—	—	—	49	—
Total impaired securities AFS	$491	$2	$407	$2	$898	$4

Notes to Consolidated Financial Statements (Unaudited), continued

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

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

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

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

Net securities gains/(losses) are comprised of gross realized gains, gross realized losses, and OTTI credit losses recognized in earnings. Gross realized gains were $4 million for both the three and six months ended June 30, 2016. Gross realized losses were immaterial and there were no OTTI credit losses recognized in earnings for both the three and six months ended June 30, 2016. Gross realized gains were $14 million for both the three and six months ended June 30, 2015. Gross realized losses were immaterial and there were no OTTI losses recognized in earnings for both the three and six months ended June 30, 2015.

Securities AFS in an unrealized loss position are evaluated quarterly for other-than-temporary credit impairment, which is determined using cash flow analyses that take into account security specific collateral and transaction structure. Future expected credit losses are determined using various assumptions, the most significant of which include default rates, prepayment

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

The Company continues to reduce existing exposure on OTTI securities primarily through paydowns. In certain instances, the amount of credit losses recognized in earnings on a debt security exceeds the total unrealized losses on the security, which may result in unrealized gains relating to factors other than credit recorded in AOCI, net of tax.

During the three and six months ended June 30, 2016 and 2015, there were no credit impairment losses recognized on securities AFS held at the end of each period. The accumulated balance of OTTI credit losses recognized in earnings on securities AFS held at period end was $24 million at June 30, 2016 and $25 million at June 30, 2015. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value when there has been a decline in expected cash flows.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 5 - LOANS

Composition of Loan Portfolio

(Dollars in millions)	June 30, 2016	December 31, 2015
Commercial loans:		
C&I	$68,603	$67,062
CRE	6,228	6,236
Commercial construction	2,617	1,954
Total commercial loans	77,448	75,252
Residential loans:		
Residential mortgages - guaranteed	534	629
Residential mortgages - nonguaranteed [1]	26,037	24,744
Residential home equity products	12,481	13,171
Residential construction	397	384
Total residential loans	39,449	38,928
Consumer loans:		
Guaranteed student	5,562	4,922
Other direct	6,825	6,127
Indirect	11,195	10,127
Credit cards	1,177	1,086
Total consumer loans	24,759	22,262
LHFI	$141,656	$136,442
LHFS [2]	$2,468	$1,838

[1] Includes $246 million and $257 million of LHFI measured at fair value at June 30, 2016 and December 31, 2015, respectively.

[2] Includes $2.2 billion and $1.5 billion of LHFS measured at fair value at June 30, 2016 and December 31, 2015, respectively.

During the three months ended June 30, 2016 and 2015, the Company transferred $107 million and $1.2 billion in LHFI to LHFS, and $5 million and $640 million in LHFS to LHFI, respectively. In addition to sales of mortgage LHFS in the normal course of business, the Company sold $260 million and $1.4 billion in loans and leases for a loss of $2 million and a gain of $7 million during the three months ended June 30, 2016 and 2015, respectively.

During the six months ended June 30, 2016 and 2015, the Company transferred $162 million and $1.7 billion in LHFI to LHFS, and $10 million and $651 million in LHFS to LHFI, respectively. In addition to sales of mortgage LHFS in the normal course of business, the Company sold $278 million and $1.8 billion in loans and leases for a loss of $2 million and a gain of $13 million during the six months ended June 30, 2016 and 2015, respectively.

At June 30, 2016 and December 31, 2015, the Company had $24.5 billion and $23.6 billion of net eligible loan collateral pledged to the Federal Reserve discount window to support $17.6 billion and $17.2 billion of available, unused borrowing capacity, respectively.

At June 30, 2016 and December 31, 2015, the Company had $35.0 billion and $33.7 billion of net eligible loan collateral pledged to the FHLB of Atlanta to support $29.9 billion and $28.5 billion of available borrowing capacity, respectively. The available FHLB borrowing capacity at June 30, 2016 was used to support $3.4 billion of long-term debt, $1.0 billion of short-term debt, and $3.2 billion of letters of credit issued on the

Company's behalf. At December 31, 2015, the available FHLB borrowing capacity was used to support $408 million of long-term debt and $6.7 billion of letters of credit issued on the Company's behalf.

Credit Quality Evaluation

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

For the commercial portfolio, the Company believes that the most appropriate credit quality indicator is an individual loan’s risk assessment expressed according to the broad regulatory agency classifications of Pass or Criticized. The Company conforms to the following regulatory classifications for Criticized assets: Other Assets Especially Mentioned (or Special Mention), Adversely Classified, Doubtful, and Loss. However, for the purposes of disclosure, management believes the most meaningful distinction within the Criticized categories is between Accruing Criticized (which includes Special Mention and a portion of Adversely Classified) and Nonaccruing Criticized (which includes a portion of Adversely Classified and Doubtful and Loss). This distinction identifies those relatively higher risk loans for which there is a basis to believe that the Company will 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 the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management requirements. Commercial risk ratings are refreshed at least annually, or more frequently as appropriate, based upon considerations such as market conditions, borrower characteristics, and portfolio trends. Additionally, management routinely reviews portfolio risk ratings, trends, and concentrations to support risk identification and mitigation activities. The increase in criticized accruing and nonaccruing C&I loans at June 30, 2016 compared to December 31, 2015, as presented in the following risk rating table, was driven primarily by downgrades of loans in the energy industry vertical.

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

For government-guaranteed loans, the Company monitors the credit quality based primarily on delinquency status, as it is a more relevant indicator of credit quality due to the government guarantee. At June 30, 2016 and December 31, 2015, 29% and

Notes to Consolidated Financial Statements (Unaudited), continued

31%, respectively, of the guaranteed residential loan portfolio was current with respect to payments. At June 30, 2016 and December 31, 2015, 80% and 78%, respectively, of the guaranteed student loan portfolio was current with respect to

payments. The Company's loss exposure on guaranteed residential and student loans is mitigated by the government guarantee.

LHFI by credit quality indicator are shown in the tables below:

	Commercial Loans					
	C&I		CRE		Commercial Construction	
(Dollars in millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Risk rating:						
Pass	$66,234	$65,379	$5,933	$6,067	$2,536	$1,931
Criticized accruing	1,878	1,375	285	158	79	23
Criticized nonaccruing	491	308	10	11	2	—
Total	$68,603	$67,062	$6,228	$6,236	$2,617	$1,954

	Residential Loans [1]					
	Residential Mortgages - Nonguaranteed		Residential Home Equity Products		Residential Construction	
(Dollars in millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Current FICO score range:						
700 and above	$21,882	$20,422	$10,094	$10,772	$333	$313
620 - 699	3,174	3,262	1,640	1,741	53	58
Below 620 [2]	981	1,060	747	658	11	13
Total	$26,037	$24,744	$12,481	$13,171	$397	$384

	Consumer Loans [3]					
	Other Direct		Indirect		Credit Cards	
(Dollars in millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Current FICO score range:						
700 and above	$6,154	$5,501	$7,834	$7,015	$827	$759
620 - 699	625	576	2,749	2,481	285	265
Below 620 [2]	46	50	612	631	65	62
Total	$6,825	$6,127	$11,195	$10,127	$1,177	$1,086

[1] Excludes $534 million and $629 million of guaranteed residential loans at June 30, 2016 and December 31, 2015, respectively.
[2] For substantially all loans with refreshed FICO scores below 620, the borrower’s FICO score at the time of origination exceeded 620 but has since deteriorated as the loan has seasoned.
[3] Excludes $5.6 billion and $4.9 billion of guaranteed student loans at June 30, 2016 and December 31, 2015, respectively.

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Notes to Consolidated Financial Statements (Unaudited), continued

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

	June 30, 2016				
(Dollars in millions)	Accruing Current	Accruing 30-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccruing [2]	Total
Commercial loans:					
C&I	$68,059	$32	$21	$491	$68,603
CRE	6,216	2	—	10	6,228
Commercial construction	2,615	—	—	2	2,617
Total commercial loans	76,890	34	21	503	77,448
Residential loans:					
Residential mortgages - guaranteed	156	53	325	—	534
Residential mortgages - nonguaranteed [1]	25,753	80	10	194	26,037
Residential home equity products	12,175	80	—	226	12,481
Residential construction	384	—	—	13	397
Total residential loans	38,468	213	335	433	39,449
Consumer loans:					
Guaranteed student	4,427	462	673	—	5,562
Other direct	6,794	22	4	5	6,825
Indirect	11,102	89	1	3	11,195
Credit cards	1,162	8	7	—	1,177
Total consumer loans	23,485	581	685	8	24,759
Total LHFI	$138,843	$828	$1,041	$944	$141,656

[1] Includes $246 million of loans measured at fair value, the majority of which were accruing current.
[2] Nonaccruing loans past due 90 days or more totaled $305 million. Nonaccruing loans past due fewer than 90 days include modified nonaccrual loans reported as TDRs, performing second lien loans where the first lien loan is nonperforming, and certain energy-related commercial loans.

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

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

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

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

Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Commercial nonaccrual loans greater than $3 million and certain commercial, residential, and consumer loans whose terms have been modified in a TDR are individually evaluated

for impairment. Smaller-balance homogeneous loans that are collectively evaluated for impairment are not included in the following tables. Additionally, the tables below exclude guaranteed consumer student loans and guaranteed residential mortgages for which there was nominal risk of principal loss.

	June 30, 2016			December 31, 2015		
(Dollars in millions)	Unpaid Principal Balance	Amortized Cost [1]	Related Allowance	Unpaid Principal Balance	Amortized Cost [1]	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial loans:						
C&I	$215	$197	$—	$55	$42	$—
CRE	—	—	—	11	9	—
Total commercial loans	215	197	—	66	51	—
Residential loans:						
Residential mortgages - nonguaranteed	505	385	—	500	380	—
Residential construction	18	8	—	29	8	—
Total residential loans	523	393	—	529	388	—
Impaired loans with an allowance recorded:						
Commercial loans:						
C&I	213	188	43	173	167	28
Total commercial loans	213	188	43	173	167	28
Residential loans:						
Residential mortgages - nonguaranteed	1,343	1,314	169	1,381	1,344	178
Residential home equity products	816	744	55	740	670	60
Residential construction	117	116	12	127	125	14
Total residential loans	2,276	2,174	236	2,248	2,139	252
Consumer loans:						
Other direct	11	10	1	11	11	1
Indirect	111	111	5	114	114	5
Credit cards	23	6	1	24	6	1
Total consumer loans	145	127	7	149	131	7
Total impaired loans	$3,372	$3,079	$286	$3,165	$2,876	$287

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

(Dollars in millions)	Three Months Ended June 30				Six Months Ended June 30			
	2016		2015		2016		2015	
	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]	Average Amortized Cost	Interest Income Recognized[1]
Impaired loans with no related allowance recorded:								
Commercial loans:								
C&I	$277	$1	$44	$1	$261	$3	$46	$1
CRE	—	—	10	—	—	—	10	—
Total commercial loans	277	1	54	1	261	3	56	1
Residential loans:								
Residential mortgages - nonguaranteed	388	4	365	4	390	8	368	7
Residential construction	9	—	8	—	9	—	10	—
Total residential loans	397	4	373	4	399	8	378	7
Impaired loans with an allowance recorded:								
Commercial loans:								
C&I	193	—	19	—	181	—	25	—
Total commercial loans	193	—	19	—	181	—	25	—
Residential loans:								
Residential mortgages - nonguaranteed	1,313	17	1,366	17	1,316	33	1,367	34
Residential home equity products	747	7	637	7	752	15	640	14
Residential construction	115	1	129	2	116	3	128	4
Total residential loans	2,175	25	2,132	26	2,184	51	2,135	52
Consumer loans:								
Other direct	11	—	12	—	11	—	12	—
Indirect	113	1	111	1	116	3	114	3
Credit cards	6	—	7	—	6	—	7	—
Total consumer loans	130	1	130	1	133	3	133	3
Total impaired loans	$3,172	$31	$2,708	$32	$3,158	$65	$2,727	$63

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

Notes to Consolidated Financial Statements (Unaudited), continued

NPAs are shown in the following table:

(Dollars in millions)	June 30, 2016	December 31, 2015
Nonaccrual/NPLs:		
Commercial loans:		
C&I	$491	$308
CRE	10	11
Commercial construction	2	—
Residential loans:		
Residential mortgages - nonguaranteed	194	183
Residential home equity products	226	145
Residential construction	13	16
Consumer loans:		
Other direct	5	6
Indirect	3	3
Total nonaccrual/NPLs [1]	944	672
OREO [2]	49	56
Other repossessed assets	8	7
Total NPAs	$1,001	$735

[1] Nonaccruing restructured loans are included in total nonaccrual/NPLs.
[2] Does not include foreclosed real estate related to loans insured by the FHA or the VA. Proceeds due from the FHA and the VA are recorded as a receivable in other assets in the Consolidated Balance Sheets until the property is conveyed and the funds are received. The receivable related to proceeds due from the FHA or the VA totaled $52 million at both June 30, 2016 and December 31, 2015.

The Company's recorded investment of nonaccruing loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2016 and December 31, 2015 was $127 million and $112 million, respectively. The Company's recorded investment of accruing loans secured by residential real estate properties for which formal foreclosure proceedings are in process at June 30, 2016 and December 31, 2015 was $138 million and $152 million, of which $128 million and $141 million were insured by the FHA or the VA, respectively.

At June 30, 2016, OREO included $37 million of foreclosed residential real estate properties and $9 million of foreclosed commercial real estate properties, with the remainder related to land.
At December 31, 2015, OREO included $39 million of foreclosed residential real estate properties and $11 million of foreclosed commercial real estate properties, with the remainder related to land.

Notes to Consolidated Financial Statements (Unaudited), continued

Restructured Loans

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

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

At June 30, 2016 and December 31, 2015, the Company had $1 million and $4 million, respectively, of commitments to lend additional funds to debtors whose terms have been modified in a TDR. The number and amortized cost of loans modified under the terms of a TDR by type of modification are shown in the following tables.

(Dollars in millions)	Three Months Ended June 30, 2016 [1]				
	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	23	$—	$—	$44	$44
Residential loans:					
Residential mortgages - nonguaranteed	119	1	26	5	32
Residential home equity products	799	—	2	75	77
Consumer loans:					
Other direct	9	—	—	—	—
Indirect	432	—	—	10	10
Credit cards	183	—	1	—	1
Total TDRs	1,565	$1	$29	$134	$164

(Dollars in millions)	Six months ended June 30, 2016 [1]				
	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	35	$—	$—	$46	$46
Commercial construction	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	239	1	58	7	66
Residential home equity products	1,531	—	9	127	136
Consumer loans:					
Other direct	32	—	—	1	1
Indirect	918	—	—	21	21
Credit cards	352	—	1	—	1
Total TDRs	3,108	$1	$68	$202	$271

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

	Three Months Ended June 30, 2015 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	23	$—	$—	$1	$1
CRE	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	241	3	34	3	40
Residential home equity products	499	—	9	17	26
Residential construction	10	—	—	—	—
Consumer loans:					
Other direct	20	—	—	—	—
Indirect	819	—	—	14	14
Credit cards	136	—	1	—	1
Total TDRs	1,749	$3	$44	$35	$82

	Six months ended June 30, 2015 [1]				
(Dollars in millions)	Number of Loans Modified	Principal Forgiveness [2]	Rate Modification	Term Extension and/or Other Concessions	Total
Commercial loans:					
C&I	45	$—	$1	$5	$6
CRE	1	—	—	—	—
Residential loans:					
Residential mortgages - nonguaranteed	457	7	63	11	81
Residential home equity products	967	—	13	41	54
Residential construction	11	—	—	—	—
Consumer loans:					
Other direct	37	—	—	—	—
Indirect	1,388	—	—	26	26
Credit cards	372	—	1	—	1
Total TDRs	3,278	$7	$78	$83	$168

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

[2] Restructured loans which had forgiveness of amounts contractually due under the terms of the loan may have had other concessions including rate modifications and/or term extensions. The total amount of charge-offs associated with principal forgiveness during the three and six months ended June 30, 2015 was immaterial.

TDRs that have defaulted during the three and six months ended June 30, 2016 and 2015 that were first modified within the previous 12 months were immaterial. The majority of loans that were modified and subsequently became 90 days or more delinquent have remained on nonaccrual status since the time of delinquency.

Concentrations of Credit Risk

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies. However, a geographic concentration arises because the Company operates primarily within Florida, Georgia, Maryland, North Carolina, and Virginia. The Company engages in limited international banking activities. The Company’s total cross-border outstanding loans were $1.7 billion and $1.6 billion at June 30, 2016 and December 31, 2015, respectively.

With respect to collateral concentration, at June 30, 2016, the Company owned $39.4 billion in loans secured by residential real estate, representing 28% of total LHFI. Additionally, the Company had $10.5 billion in commitments to extend credit on home equity lines and $7.0 billion in mortgage loan commitments outstanding at June 30, 2016. At December 31, 2015, the Company owned $38.9 billion in loans secured by residential real estate, representing 29% of total LHFI, and had $10.5 billion in commitments to extend credit on home equity lines and $3.2 billion in mortgage loan commitments outstanding. At June 30, 2016 and December 31, 2015, 1% and 2% of residential loans owned were guaranteed by a federal agency or a GSE, respectively.

Notes to Consolidated Financial Statements (Unaudited), continued

NOTE 6 - ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses consists of the ALLL and the unfunded commitments reserve. Activity in the allowance for credit losses is summarized in the following table:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in millions)	2016	2015	2016	2015
Balance, beginning of period	$1,831	$1,947	$1,815	$1,991
Provision for loan losses	141	28	243	84
Provision/(benefit) for unfunded commitments	5	(2)	3	(2)
Loan charge-offs	(167)	(123)	(278)	(254)
Loan recoveries	30	36	57	67
Balance, end of period	$1,840	$1,886	$1,840	$1,886
Components:				
ALLL			$1,774	$1,834
Unfunded commitments reserve [1]			66	52
Allowance for credit losses			$1,840	$1,886

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

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

	Three Months Ended June 30, 2016			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$1,123	$467	$180	$1,770
Provision/(benefit) for loan losses	114	(4)	31	141
Loan charge-offs	(99)	(33)	(35)	(167)
Loan recoveries	9	9	12	30
Balance, end of period	$1,147	$439	$188	$1,774

	Three Months Ended June 30, 2015			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$976	$743	$174	$1,893
Provision/(benefit) for loan losses	33	(16)	11	28
Loan charge-offs	(31)	(61)	(31)	(123)
Loan recoveries	15	10	11	36
Balance, end of period	$993	$676	$165	$1,834

	Six Months Ended June 30, 2016			
(Dollars in millions)	Commercial	Residential	Consumer	Total
Balance, beginning of period	$1,047	$534	$171	$1,752
Provision/(benefit) for loan losses	212	(37)	68	243
Loan charge-offs	(131)	(73)	(74)	(278)
Loan recoveries	19	15	23	57
Balance, end of period	$1,147	$439	$188	$1,774

	Six Months Ended June 30, 2015			
(Dollars in millions)	Commercial	Residential	Consumer	Total

Balance, beginning of period	$986	$777	$174	$1,937
Provision for loan losses	40	9	35	84
Loan charge-offs	(59)	(129)	(66)	(254)
Loan recoveries	26	19	22	67
Balance, end of period	$993	$676	$165	$1,834

Notes to Consolidated Financial Statements (Unaudited), continued

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

loans measured at fair value. Additionally, the Company records an immaterial allowance for loan products that are guaranteed by government agencies, as there is nominal risk of principal loss. The Company’s LHFI portfolio and related ALLL is presented in the following tables.

	June 30, 2016							
	Commercial		Residential		Consumer		Total	
(Dollars in millions)	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL	Carrying Value	ALLL
Individually evaluated	$385	$43	$2,567	$236	$127	$7	$3,079	$286
Collectively evaluated	77,063	1,104	36,636	203	24,632	181	138,331	1,488
Total evaluated	77,448	1,147	39,203	439	24,759	188	141,410	1,774
LHFI at fair value	—	—	246	—	—	—	246	—
Total LHFI	$77,448	$1,147	$39,449	$439	$24,759	$188	$141,656	$1,774

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

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company conducts a goodwill impairment test at the reporting unit level at least annually, or more frequently as events occur or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. See Note 1, "Significant Accounting Policies," in the Company's 2015 Annual Report on Form 10-K for additional information regarding the Company's goodwill accounting policy.

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

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

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

Notes to Consolidated Financial Statements (Unaudited), continued

Other Intangible Assets

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

(Dollars in millions)	MSRs - Fair Value	Other	Total
Balance, January 1, 2016	$1,307	$18	$1,325
Amortization [1]	—	(4)	(4)
Servicing rights originated	110	—	110
Servicing rights purchased	77	—	77
Changes in fair value:			
Due to changes in inputs and assumptions [2]	(333)	—	(333)
Other changes in fair value [3]	(99)	—	(99)
Servicing rights sold	(1)	—	(1)
Balance, June 30, 2016	$1,061	$14	$1,075
Balance, January 1, 2015	$1,206	$13	$1,219
Amortization [1]	—	(3)	(3)
Servicing rights originated	117	13	130
Servicing rights purchased	109	—	109
Changes in fair value:			
Due to changes in inputs and assumptions [2]	72	—	72
Other changes in fair value [3]	(109)	—	(109)
Servicing rights sold	(2)	—	(2)
Balance, June 30, 2015	$1,393	$23	$1,416

[1] Does not include expense associated with non-qualified community development investments. See Note 8, "Certain Transfers of Financial Assets and Variable Interest Entities," for additional information.

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

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

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

Servicing Rights

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

Mortgage Servicing Rights

Income earned by the Company on its MSRs is derived primarily from contractually specified mortgage servicing fees and late fees, net of curtailment costs. Such income earned for the three and six months ended June 30, 2016 was $92 million and $179 million, respectively, and $83 million and $166 million for the three and six months ended June 30, 2015, respectively. These amounts are reported in mortgage servicing related income in the Consolidated Statements of Income.

At June 30, 2016 and December 31, 2015, the total UPB of mortgage loans serviced was $154.5 billion and $148.2 billion, respectively. Included in these amounts were $125.4 billion and $121.0 billion at June 30, 2016 and December 31, 2015, respectively, of loans serviced for third parties. The Company purchased MSRs on residential loans with a UPB of $8.1 billion during the six months ended June 30, 2016, all of which are reflected in the UPB amounts above. The Company purchased MSRs on residential loans with a UPB of $10.3 billion during the six months ended June 30, 2015. During the six months ended June 30, 2016 and 2015, the Company sold MSRs on residential loans, at a price approximating their fair value, with a UPB of $351 million and $407 million, respectively.

The Company calculates the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income using prepayment projections, spreads, and other assumptions. Senior management and the STM Valuation Committee review all significant assumptions at least quarterly, comparing these inputs to various sources of market data. Changes to valuation model inputs are reflected in the periods' results. See Note 14, “Fair Value Election and Measurement,” for further information regarding the Company's MSR valuation methodology.

Notes to Consolidated Financial Statements (Unaudited), continued

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

(Dollars in millions)	June 30, 2016		December 31, 2015	
Fair value of MSRs	$1,061		$1,307	
Prepayment rate assumption (annual)	14	%	10	%
Decline in fair value from 10% adverse change	$51		$49	
Decline in fair value from 20% adverse change	97		94	
Option adjusted spread (annual)	9	%	8	%
Decline in fair value from 10% adverse change	$43		$64	
Decline in fair value from 20% adverse change	83		123	
Weighted-average life (in years)	5.3		6.6	
Weighted-average coupon	4.1	%	4.1	%

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

Consumer Loan Servicing Rights

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

Income earned by the Company on its consumer loan servicing rights is derived primarily from contractually specified servicing fees and other ancillary fees. Such income earned for the three and six months ended June 30, 2016 was $2 million and $4 million, respectively, and is reported in other noninterest income in the Consolidated Statements of Income. Income earned for both the three and six months ended June 30, 2015 was $1 million.

At June 30, 2016 and December 31, 2015, the total UPB of consumer indirect loans serviced was $652 million and $807 million, respectively, all of which were serviced for third parties. No consumer loan servicing rights were purchased or sold during the six months ended June 30, 2016 and 2015.

Consumer loan servicing rights are accounted for at amortized cost and are monitored for impairment on an ongoing basis. The Company calculates the fair value of consumer servicing rights using a valuation model that calculates the present value of estimated future net servicing income using prepayment projections and other assumptions. Impairment, if any, is recognized when changes in valuation model inputs reflect a fair value for the servicing asset that is below its respective carrying value. At June 30, 2016, the amortized cost of the Company's consumer loan servicing rights was $6 million.