

REGIONS FINANCIAL CORP

Form 10-Q

November 07, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

✓ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

or

.. Transition report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the transition period from to
Commission File Number: 001-34034

Regions
Financial
Corporation
(Exact name
of registrant
as specified
in its
charter)

Delaware 63-0589368
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1900 Fifth Avenue North 35203
Birmingham, Alabama
(Address of principal executive offices) (Zip Code)
(800) 734-4667
(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files). ✓ Yes " No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer 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 Exchange Act). Yes No

The number of shares outstanding of each of the issuer’s classes of common stock was 1,033,870,240 shares of common stock, par value \$.01, outstanding as of November 5, 2018.

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Glossary of Defined Terms

Agencies - collectively, FNMA, FHLMC and GNMA.

ALCO - Asset/Liability Management Committee.

AOCI - Accumulated other comprehensive income (loss).

ASU - Accounting Standards Update.

ATM - Automated teller machine.

Bank - Regions Bank.

Basel I - Basel Committee's 1988 Regulatory Capital Framework (First Accord).

Basel III - Basel Committee's 2010 Regulatory Capital Framework (Third Accord).

Basel III Rules - Final capital rules adopting the Basel III capital framework approved by U.S. federal regulators in 2013.

Basel Committee - Basel Committee on Banking Supervision.

BHC - Bank Holding Company.

BITS - Technology arm of the Financial Services Roundtable.

Board - The Company's Board of Directors.

CAP - Customer Assistance Program.

CCAR - Comprehensive Capital Analysis and Review.

CD - Certificate of deposit.

CECL - Current expected credit loss.

CEO - Chief Executive Officer.

CET1 - Common Equity Tier 1.

CFPB - Consumer Financial Protection Bureau.

Company - Regions Financial Corporation and its subsidiaries.

CPR - Constant (or Conditional) Prepayment Rate.

CRA - Community Reinvestment Act of 1977.

Dodd-Frank Act - The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

DPD - Days Past Due.

DUS - Fannie Mae Delegated Underwriting & Servicing.

EGRRCPA - The Economic Growth, Regulatory Relief, and Consumer Protection Act.

EPS - Earnings (loss) per common share.

FASB - Financial Accounting Standards Board.

FDIC - Federal Deposit Insurance Corporation.

Federal Reserve - Board of Governors of the Federal Reserve System.

FEMA - Federal Emergency Management Agency.

FHA - Federal Housing Administration.

FHLB - Federal Home Loan Bank.

FHLMC - Federal Home Loan Mortgage Corporation, known as Freddie Mac.

FNMA - Federal National Mortgage Association, known as Fannie Mae.

FRB - Federal Reserve Bank.

FS-ISAC - Financial Services - Information Sharing & Analysis Center.

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GAAP - Generally Accepted Accounting Principles in the United States.
GCM - Guideline Public Company Method.
GDP - Gross Domestic Product.
GNMA - Government National Mortgage Association.
GTM - Guideline Transaction Method.
HUD - U.S. Department of Housing and Urban Development.
HVCRE - High Volatility Commercial Real Estate.
IP - Intellectual Property.
IPO - Initial public offering.
IRS - Internal Revenue Service.
LCR - Liquidity coverage ratio.
LIBOR - London InterBank Offered Rates.
LTIP - Long-term incentive plan.
LTV - Loan to value.
MBS - Mortgage-backed securities.
Morgan Keegan - Morgan Keegan & Company, Inc.
MSAs - Metropolitan Statistical Areas.
MSR - Mortgage servicing right.
NM - Not meaningful.
NPR - Notice of Proposed Rulemaking.
OAS - Option-Adjusted Spread.
OCC - Office of the Comptroller of the Currency.
OCI - Other comprehensive income.
OIS - Overnight indexed swap.
OTTI - Other-than-temporary impairment.
Raymond James - Raymond James Financial, Inc.
RICO - Racketeer Influenced and Corrupt Organizations Act.
SEC - U.S. Securities and Exchange Commission.
SERP - Supplemental Executive Retirement Plan.
SSFA - Simplified Supervisory Formula Approach.
Tax Reform - H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018.
TDR - Troubled debt restructuring.
U.S. - United States.
U.S. Treasury - United States Department of the Treasury.
UTB - Unrecognized tax benefits.
VIE - Variable interest entity.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, other periodic reports filed by Regions Financial Corporation under the Securities Exchange Act of 1934, as amended, and any other written or oral statements made by us or on our behalf to analysts, investors, the media and others, may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The terms “Regions,” the “Company,” “we,” “us” and “our” used herein mean collectively Regions Financial Corporation, a Delaware corporation, together with its subsidiaries when or where appropriate. The words “future,” “anticipates,” “assumes,” “intends,” “plans,” “seeks,” “believes,” “predicts,” “potential,” “objectives,” “estimates,” “targets,” “projects,” “outlook,” “forecast,” “would,” “will,” “may,” “might,” “could,” “should,” “can,” and similar terms and often signify forward-looking statements. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results or other developments. Forward-looking statements are based on management’s current expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Those statements are based on general assumptions and are subject to various risks, and because they also relate to the future they are likewise subject to inherent uncertainties and other factors that may cause actual results to differ materially from the views, beliefs and projections expressed in such statements. Therefore, we caution you against relying on any of these forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described below: Current and future economic and market conditions in the U.S. generally or in the communities we serve, including the effects of possible declines in property values, increases in unemployment rates and potential reductions of economic growth, which may adversely affect our lending and other businesses and our financial results and conditions.

Possible changes in trade, monetary and fiscal policies of, and other activities undertaken by, governments, agencies, central banks and similar organizations, which could have a material adverse effect on our earnings.

The effects of a possible downgrade in the U.S. government’s sovereign credit rating or outlook, which could result in risks to us and general economic conditions that we are not able to predict.

Possible changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital and liquidity.

Any impairment of our goodwill or other intangibles, any repricing of assets, or any adjustment of valuation allowances on our deferred tax assets due to changes in law, adverse changes in the economic environment, declining operations of the reporting unit or other factors.

The effect of changes in tax laws, including the effect of Tax Reform and any future interpretations of or amendments to Tax Reform, which may impact our earnings, capital ratios and our ability to return capital to shareholders.

Possible changes in the creditworthiness of customers and the possible impairment of the collectability of loans and leases, including operating leases.

Changes in the speed of loan prepayments, loan origination and sale volumes, charge-offs, loan loss provisions or actual loan losses where our allowance for loan losses may not be adequate to cover our eventual losses.

Possible acceleration of prepayments on mortgage-backed securities due to low interest rates, and the related acceleration of premium amortization on those securities.

Loss of customer checking and savings account deposits as customers pursue other, higher-yield investments, which could increase our funding costs.

Possible changes in consumer and business spending and saving habits and the related effect on our ability to increase assets and to attract deposits, which could adversely affect our net income.

Our ability to effectively compete with other traditional and non-traditional financial services companies, some of whom possess greater financial resources than we do or are subject to different regulatory standards than we are. Our inability to develop and gain acceptance from current and prospective customers for new products and services and the enhancement of existing products and services to meet customers’ needs and respond to emerging technological trends in a timely manner could have a negative impact on our revenue.

Our inability to keep pace with technological changes could result in losing business to competitors.

Changes in laws and regulations affecting our businesses, including legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.

Our ability to obtain a regulatory non-objection (as part of the CCAR process or otherwise) to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current

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or future programs, or redeem preferred stock or other regulatory capital instruments, may impact our ability to return capital to stockholders and market perceptions of us.

Our ability to comply with stress testing and capital planning requirements (as part of the CCAR process or otherwise) may continue to require a significant investment of our managerial resources due to the importance and intensity of such tests and requirements.

Our ability to comply with applicable capital and liquidity requirements (including, among other things, the Basel III capital standards and the LCR rule), including our ability to generate capital internally or raise capital on favorable terms, and if we fail to meet requirements, our financial condition could be negatively impacted.

The effects of any developments, changes or actions relating to any litigation or regulatory proceedings brought against us or any of our subsidiaries.

The costs, including possibly incurring fines, penalties, or other negative effects (including reputational harm) of any adverse judicial, administrative, or arbitral rulings or proceedings, regulatory enforcement actions, or other legal actions to which we or any of our subsidiaries are a party, and which may adversely affect our results.

Our ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support our business.

Our ability to execute on our strategic and operational plans, including our ability to fully realize the financial and non-financial benefits relating to our strategic initiatives.

The risks and uncertainties related to our acquisition or divestiture of businesses.

The success of our marketing efforts in attracting and retaining customers.

Our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of our products and services may be affected by changes in laws and regulations in effect from time to time.

Fraud or misconduct by our customers, employees or business partners.

Any inaccurate or incomplete information provided to us by our customers or counterparties.

Inability of our framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers, which could, among other things, result in a breach of operating or security systems as a result of a cyber attack or similar act or failure to deliver our services effectively.

Dependence on key suppliers or vendors to obtain equipment and other supplies for our business on acceptable terms.

The inability of our internal controls and procedures to prevent, detect or mitigate any material errors or fraudulent acts.

The effects of geopolitical instability, including wars, conflicts and terrorist attacks and the potential impact, directly or indirectly, on our businesses.

The effects of man-made and natural disasters, including fires, floods, droughts, tornadoes, hurricanes, and environmental damage, which may negatively affect our operations and/or our loan portfolios and increase our cost of conducting business.

Changes in commodity market prices and conditions could adversely affect the cash flows of our borrowers operating in industries that are impacted by changes in commodity prices (including businesses indirectly impacted by commodities prices such as businesses that transport commodities or manufacture equipment used in the production of commodities), which could impair their ability to service any loans outstanding to them and/or reduce demand for loans in those industries.

Our ability to identify and address cyber-security risks such as data security breaches, malware, “denial of service” attacks, “hacking” and identity theft, a failure of which could disrupt our business and result in the disclosure of and/or misuse or misappropriation of confidential or proprietary information, disruption or damage to our systems, increased costs, losses, or adverse effects to our reputation.

Our ability to realize our adjusted efficiency ratio target as part of our expense management initiatives.

Possible downgrades in our credit ratings or outlook could increase the costs of funding from capital markets.

The effects of problems encountered by other financial institutions that adversely affect us or the banking industry generally could require us to change certain business practices, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses.

The effects of the failure of any component of our business infrastructure provided by a third party could disrupt our businesses, result in the disclosure of and/or misuse of confidential information or proprietary information, increase our costs, negatively affect our reputation, and cause losses.

Our ability to receive dividends from our subsidiaries could affect our liquidity and ability to pay dividends to stockholders.

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• Changes in accounting policies or procedures as may be required by the FASB or other regulatory agencies could materially affect how we report our financial results.

• Other risks identified from time to time in reports that we file with the SEC.

• Fluctuations in the price of our common stock and inability to complete stock repurchases in the time frame and/or on the terms anticipated.

• The effects of any damage to our reputation resulting from developments related to any of the items identified above.

You should not place undue reliance on any forward-looking statements, which speak only as of the date made.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible to predict all of them. We assume no obligation and do not intend to update or revise any forward-looking statements that are made from time to time, either as a result of future developments, new information or otherwise, except as may be required by law.

See also the reports filed with the SEC, including the discussion under the “Risk Factors” section of Regions’ Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC and available on its website at www.sec.gov.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	(In millions, except share data)	
Assets		
Cash and due from banks	\$ 1,911	\$ 2,012
Interest-bearing deposits in other banks	1,584	1,899
Federal funds sold and securities purchased under agreements to resell	—	70
Debt securities held to maturity (estimated fair value of \$1,472 and \$1,667, respectively)	1,524	1,658
Debt securities available for sale	22,671	23,403
Loans held for sale (includes \$293 and \$325 measured at fair value, respectively)	331	348
Loans, net of unearned income	81,821	79,947
Allowance for loan losses	(840	) (934
Net loans	80,981	79,013
Other earning assets	1,801	1,891
Premises and equipment, net	2,051	2,064
Interest receivable	360	337
Goodwill	4,829	4,904
Residential mortgage servicing rights at fair value	406	336
Other identifiable intangible assets	122	177
Other assets	6,007	6,182
Total assets	\$ 124,578	\$ 124,294
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	\$ 35,354	\$ 36,127
Interest-bearing	57,901	60,762
Total deposits	93,255	96,889
Borrowed funds:		
Short-term borrowings:		
Other short-term borrowings	3,250	500
Total short-term borrowings	3,250	500
Long-term borrowings	11,178	8,132
Total borrowed funds	14,428	8,632
Other liabilities	2,125	2,581
Total liabilities	109,808	108,102
Stockholders' equity:		
Preferred stock, authorized 10 million shares, par value \$1.00 per share		
Non-cumulative perpetual, liquidation preference \$1,000.00 per share, including related surplus, net of issuance costs; issued—1,000,000 shares	820	820
Common stock, authorized 3 billion shares, par value \$.01 per share:		
Issued including treasury stock—1,096,458,732 and 1,175,327,565 shares, respectively	11	12
Additional paid-in capital	14,122	15,858

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Retained earnings	2,582	1,628	
Treasury stock, at cost—41,032,675 and 41,259,320 shares, respectively	(1,371) (1,377)
Accumulated other comprehensive income (loss), net	(1,394) (749)
Total stockholders' equity	14,770	16,192	
Total liabilities and stockholders' equity	\$ 124,578	\$ 124,294	

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions, except per share data)			
Interest income, including other financing income on:				
Loans, including fees	\$919	\$827	\$2,651	\$2,401
Debt securities - taxable	155	148	465	445
Loans held for sale	4	3	11	11
Other earning assets	17	13	53	38
Operating lease assets	17	21	55	72
Total interest income, including other financing income	1,112	1,012	3,235	2,967
Interest expense on:				
Deposits	64	42	170	114
Short-term borrowings	8	2	15	4
Long-term borrowings	84	53	229	153
Total interest expense	156	97	414	271
Depreciation expense on operating lease assets	14	18	44	58
Total interest expense and depreciation expense on operating lease assets	170	115	458	329
Net interest income and other financing income	942	897	2,777	2,638
Provision for loan losses	84	76	134	194
Net interest income and other financing income after provision for loan losses	858	821	2,643	2,444
Non-interest income:				
Service charges on deposit accounts	179	175	525	512
Card and ATM fees	111	103	327	311
Investment management and trust fee income	59	58	175	171
Capital markets income	45	35	152	105
Mortgage income	32	32	107	113
Securities gains, net	—	8	1	9
Other	93	71	251	225
Total non-interest income	519	482	1,538	1,446
Non-interest expense:				
Salaries and employee benefits	473	464	1,479	1,395
Net occupancy expense	82	89	249	257
Furniture and equipment expense	81	83	243	246
Other	286	217	746	673
Total non-interest expense	922	853	2,717	2,571
Income from continuing operations before income taxes	455	450	1,464	1,319
Income tax expense	85	138	302	398
Income from continuing operations	370	312	1,162	921
Discontinued operations:				
Income from discontinued operations before income taxes	274	—	271	13
Income tax expense	80	1	80	6
Income (loss) from discontinued operations, net of tax	194	(1)	191	7

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Net income	\$564	\$311	\$1,353	\$928
Net income from continuing operations available to common shareholders	\$354	\$296	\$1,114	\$873
Net income available to common shareholders	\$548	\$295	\$1,305	\$880
Weighted-average number of shares outstanding:				
Basic	1,086	1,182	1,111	1,197
Diluted	1,095	1,193	1,121	1,209
Earnings per common share from continuing operations:				
Basic	\$0.33	\$0.25	\$1.00	\$0.73
Diluted	0.32	0.25	0.99	0.72
Earnings per common share:				
Basic	\$0.50	\$0.25	\$1.18	\$0.74
Diluted	0.50	0.25	1.16	0.73
Cash dividends declared per common share	0.14	0.09	0.32	0.225
See notes to consolidated financial statements.				

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Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of (\$162) and \$47 tax effect, respectively)	(479) 75
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and \$2 tax effect, respectively)	—	3
Net change in unrealized gains (losses) on securities available for sale, net of tax	(479	) 72
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of (\$60) and \$24 tax effect, respectively)	(178	) 39
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of \$4 and \$27 tax effect, respectively)	12	43
Net change in unrealized gains (losses) on derivative instruments, net of tax	(190	) (4)
Defined benefit pension plans and other post employment benefits:		
Net actuarial gains (losses) arising during the period (net of zero and zero tax effect, respectively)	(2	) (1)
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (net of (\$6) and (\$14) tax effect, respectively)	(21	) (25)
Net change from defined benefit pension plans and other post employment benefits, net of tax	19	24
Other comprehensive income (loss), net of tax	(645	) 96
Comprehensive income	\$708	\$1,024
See notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock Shares	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Accumulated Other Comprehensive Income (Loss), Net	Total
(In millions, except per share data)							
BALANCE AT JANUARY 1, 2017	1 \$ 820	1,214	\$ 13	\$ 17,092	\$ 666	\$(1,377)	\$ (550)) \$ 16,664
Net income	—	—	—	—	928	—	928
Other comprehensive income (loss), net of tax	—	—	—	—	—	96	96
Cash dividends declared—\$0.225 per share	—	—	—	—	(267)	—	(267)
Preferred stock dividends	—	—	—	—	(48)	—	(48)
Common stock transactions:							
Impact of share repurchases	—	(54)	(1)	(774)	—	—	(775)
Impact of stock transactions under compensation plans, net and other	—	5	—	26	—	—	26
BALANCE AT SEPTEMBER 30, 2017	1 \$ 820	1,165	\$ 12	\$ 16,344	\$ 1,279	\$(1,377)	\$ (454)) \$ 16,624
BALANCE AT JANUARY 1, 2018	1 \$ 820	1,133	\$ 12	\$ 15,858	\$ 1,628	\$(1,377)	\$ (749)) \$ 16,192
Cumulative effect from change in accounting guidance	—	—	—	—	(2)	—	(2)
Net income	—	—	—	—	1,353	—	1,353
Other comprehensive income (loss), net of tax	—	—	—	—	—	(645)	(645)
Cash dividends declared—\$0.32 per share	—	—	—	—	(349)	—	(349)
Preferred stock dividends	—	—	—	—	(48)	—	(48)
Common stock transactions:							
Impact of share repurchases	—	(84)	(1)	(1,751)	—	—	(1,752)
Impact of stock transactions under compensation plans, net and other	—	6	—	15	—	6	21
BALANCE AT SEPTEMBER 30, 2018	1 \$ 820	1,055	\$ 11	\$ 14,122	\$ 2,582	\$(1,371)	\$ (1,394)) \$ 14,770

See notes to consolidated financial statements.

Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30 2018 2017 (In millions)	
Operating activities:		
Net income	\$ 1,353	\$ 928
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	134	194
Depreciation, amortization and accretion, net	355	410
Securities (gains) losses, net	(1)	(9)
(Gain) on sale of business	(281)	—
Deferred income tax expense	146	63
Originations and purchases of loans held for sale	(2,419)	(2,667)
Proceeds from sales of loans held for sale	2,480	3,074
(Gain) loss on sale of loans, net	(55)	(78)
Net change in operating assets and liabilities:		
Other earning assets	46	145
Interest receivable and other assets	(39)	(85)
Other liabilities	(432)	(9)
Other	(16)	38
Net cash from operating activities	1,271	2,004
Investing activities:		
Proceeds from maturities of debt securities held to maturity	132	152
Proceeds from sales of debt securities available for sale	186	704
Proceeds from maturities of debt securities available for sale	2,569	2,673
Net proceeds from (purchases of) bank-owned life insurance	(3)	—
Purchases of debt securities available for sale	(2,760)	(3,303)
Purchases of debt securities held to maturity	—	(494)
Proceeds from sales of loans	290	45
Purchases of loans	(403)	(153)
Purchases of mortgage servicing rights	(37)	(40)
Net change in loans	(2,036)	498
Net purchases of other assets	(129)	(81)
Proceeds from disposition of business, net of cash transferred	357	—
Net cash from investing activities	(1,834)	1
Financing activities:		
Net change in deposits	(3,634)	(1,444)
Net change in short-term borrowings	2,750	600
Proceeds from long-term borrowings	10,800	2,844
Payments on long-term borrowings	(7,700)	(4,504)
Cash dividends on common stock	(304)	(346)
Cash dividends on preferred stock	(48)	(48)
Repurchases of common stock	(1,752)	(775)
Taxes paid related to net share settlement of equity awards	(34)	(22)

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Other	(1)	—	
Net cash from financing activities	77	(3,695)	
Net change in cash and cash equivalents	(486)	(1,690)
Cash and cash equivalents at beginning of year	3,981	5,451		
Cash and cash equivalents at end of period	\$3,495	\$3,761		

See notes to consolidated financial statements.

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REGIONS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Three and Nine Months Ended September 30, 2018 and 2017

NOTE 1. BASIS OF PRESENTATION

Regions Financial Corporation (“Regions” or the “Company”) provides a full range of banking and bank-related services to individual and corporate customers through its subsidiaries and branch offices located across the South, Midwest and Texas. The Company competes with other financial institutions located in the states in which it operates, as well as other adjoining states. Regions is subject to the regulations of certain government agencies and undergoes periodic examinations by certain regulatory authorities.

The accounting and reporting policies of Regions and the methods of applying those policies that materially affect the consolidated financial statements conform with GAAP and with general financial services industry practices. The accompanying interim financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes to the consolidated financial statements necessary for a complete presentation of financial position, results of operations, comprehensive income and cash flows in conformity with GAAP. In the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair presentation of the consolidated financial statements have been included. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in Regions’ Annual Report on Form 10-K for the year ended December 31, 2017. Regions has evaluated all subsequent events for potential recognition and disclosure through the filing date of this Form 10-Q.

On April 4, 2018, Regions entered into a stock purchase agreement to sell Regions Insurance Group, Inc. and related affiliates to BB&T Holdings, Inc. The transaction closed on July 2, 2018. Regions sold Morgan Keegan and related affiliates in April 2012. See Note 2 and Note 13 for related disclosure.

Effective January 1, 2018, the Company adopted new guidance related to several accounting topics. The cumulative effect of the retrospective application was a total reduction to retained earnings of \$2 million, of which the individual components were immaterial. All prior period amounts impacted by guidance that required retrospective application have been revised. See Note 15 for related disclosure.

NOTE 2. DISCONTINUED OPERATIONS

On April 4, 2018, Regions entered into a stock purchase agreement to sell Regions Insurance Group, Inc. and related affiliates to BB&T Insurance Holdings, Inc. The transaction closed on July 2, 2018. The gain associated with the transaction amounted to \$281 million (\$196 million after-tax).

In connection with the agreement, the results of the entities sold are reported in the Company's consolidated statements of income separately as discontinued operations for all periods presented.

On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James. The transaction closed on April 2, 2012. Regions Investment Management, Inc. (formerly known as Morgan Asset Management, Inc.) and Regions Trust were not included in the sale. In connection with the closing of the sale, Regions agreed to indemnify Raymond James for all litigation matters related to pre-closing activities. See Note 13 for related disclosure.

Results of operations for the Morgan Keegan entities sold are presented separately as discontinued operations for all periods presented on the consolidated statements of income. This presentation is consistent with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

The following table represents the condensed results of operations for the Regions Insurance Group, Inc. entities sold as discontinued operations:

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	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions)			
Interest income	\$1	\$ 1	\$1	\$ 1
Interest expense	—	—	—	—
Net interest income	1	1	1	1
Non-interest income:				
Securities gains (losses), net	(1)	—	(1)	—
Insurance commissions and fees	—	33	69	104
Gain on sale of business	281	—	281	—
Other	—	1	—	2
Total non-interest income	280	34	349	106
Non-interest expense:				
Salaries and employee benefits	—	24	49	73
Net occupancy expense	—	2	3	5
Furniture and equipment expense	—	1	2	3
Other	1	7	16	22
Total non-interest expense	1	34	70	103
Income from discontinued operations before income taxes	280	1	280	4
Income tax expense	84	1	84	2
Income from discontinued operations, net of tax	\$196	\$ —	\$196	\$ 2

The following table represents the condensed results of operations for both the Regions Insurance Group, Inc. entities being sold and Morgan Keegan and Company, Inc. and related affiliates as discontinued operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(In millions, except per share data)			
Income from discontinued operations before income taxes	\$274	\$—	\$271	\$13
Income tax expense	80	1	80	6
Income (loss) from discontinued operations, net of tax	\$194	\$(1)	\$191	\$7
Earnings (loss) per common share from discontinued operations:				
Basic	\$0.18	\$(0.00)	\$0.17	\$0.01
Diluted	\$0.18	\$(0.00)	\$0.17	\$0.01

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NOTE 3. SECURITIES

DEBT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of debt securities held to maturity and debt securities available for sale are as follows:

	September 30, 2018						
	Recognized in OCI ⁽¹⁾				Not Recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	\$923	\$—	\$ (34)	) \$889	\$—	\$ (27)	) \$862
Commercial agency	638	—	(3)	) 635	—	(25)	) 610
	\$1,561	\$—	\$ (37)	) \$1,524	\$—	\$ (52)	) \$1,472
Debt securities available for sale:							
U.S. Treasury securities	\$282	\$—	\$ (6)	) \$276			\$276
Federal agency securities	46	—	—	46			46
Mortgage-backed securities:							
Residential agency	17,363	12	(706)	) 16,669			16,669
Residential non-agency	2	—	—	2			2
Commercial agency	3,885	—	(110)	) 3,775			3,775
Commercial non-agency	785	2	(14)	) 773			773
Corporate and other debt securities	1,151	2	(23)	) 1,130			1,130
	\$23,514	\$16	\$ (859)	) \$22,671			\$22,671
	December 31, 2017						
	Recognized in OCI ⁽¹⁾				Not Recognized in OCI		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)						
Debt securities held to maturity:							
Mortgage-backed securities:							
Residential agency	\$1,051	\$—	\$ (40)	) \$1,011	\$12	\$ (4)	) \$1,019
Commercial agency	651	—	(4)	) 647	5	(4)	) 648
	\$1,702	\$—	\$ (44)	) \$1,658	\$17	\$ (8)	) \$1,667
Debt securities available for sale:							
U.S. Treasury securities	\$333	\$—	\$ (2)	) \$331			\$331
Federal agency securities	28	—	—	28			28
Mortgage-backed securities:							
Residential agency	17,622	53	(244)) 17,431			17,431
Residential non-agency	3	—	—	3			3
Commercial agency	3,739	5	(30)) 3,714			3,714

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Commercial non-agency	787	4	(3)	788	788
Corporate and other debt securities	1,093	20	(5)	1,108	1,108
	\$23,605	\$82	\$ (284	)	\$23,403	\$ 23,403

(1) The gross unrealized losses recognized in OCI on securities held to maturity resulted from a transfer of securities available for sale to held to maturity in the second quarter of 2013.

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Debt securities with carrying values of \$7.6 billion and \$8.1 billion at September 30, 2018 and December 31, 2017, respectively, were pledged to secure public funds, trust deposits and certain borrowing arrangements. Included within total pledged securities is approximately \$24 million and \$50 million of encumbered U.S. Treasury securities at September 30, 2018 and December 31, 2017, respectively.

The amortized cost and estimated fair value of debt securities held to maturity and debt securities available for sale at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In millions)	
Debt securities held to maturity:		
Mortgage-backed securities:		
Residential agency	\$923	\$ 862
Commercial agency	638	610
	\$1,561	\$ 1,472
Debt securities available for sale:		
Due in one year or less	\$65	\$ 65
Due after one year through five years	980	964
Due after five years through ten years	385	374
Due after ten years	49	49
Mortgage-backed securities:		
Residential agency	17,363	16,669
Residential non-agency	2	2
Commercial agency	3,885	3,775
Commercial non-agency	785	773
	\$23,514	\$ 22,671

The following tables present gross unrealized losses and the related estimated fair value of debt securities held to maturity and debt securities available for sale at September 30, 2018 and December 31, 2017. For debt securities transferred to held to maturity from available for sale, the analysis in the tables below is comparing the securities' original amortized cost to its current estimated fair value. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more.

	September 30, 2018					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
	(In millions)					
Debt securities held to maturity:						
Mortgage-backed securities:						
Residential agency	\$—	\$ —	\$862	\$ (61)	\$862	\$ (61)
Commercial agency	475	(18)	135	(10)	610	(28)
	\$475	\$ (18)	\$997	\$ (71)	\$1,472	\$ (89)
Debt securities available for sale:						
U.S. Treasury securities	\$199	\$ (3)	\$72	\$ (3)	\$271	\$ (6)

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Mortgage-backed securities:

Residential agency	6,407	(169)	9,091	(537)	15,498	(706)
Commercial agency	2,162	(51	)	1,441	(59	)	3,603	(110)
Commercial non-agency	515	(11	)	105	(3	)	620	(14)
Corporate and other debt securities	772	(15)	163	(8)	935	(23)
	\$10,055	\$ (249)	\$10,872	\$ (610)	\$20,927	\$ (859)

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	December 31, 2017					
	Less Than Twelve Months		Twelve Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(In millions)						
Debt securities held to maturity:						
Mortgage-backed securities:						
Residential agency	\$—	\$ —	\$1,019	\$ (32)	\$1,019	\$ (32)
Commercial agency	—	—	150	(7)	150	(7)
	\$—	\$ —	\$1,169	\$ (39)	\$1,169	\$ (39)
Debt securities available for sale:						
U.S. Treasury securities	\$221	\$ (1)	\$84	\$ (1)	\$305	\$ (2)
Mortgage-backed securities:						
Residential agency	5,157	(40)	8,195	(204)	13,352	(244)
Commercial agency	1,666	(10)	904	(20)	2,570	(30)
Commercial non-agency	393	(2)	61	(1)	454	(3)
Corporate and other debt securities	306	(2)	105	(3)	411	(5)
	\$7,743	\$ (55)	\$9,349	\$ (229)	\$17,092	\$ (284)

The number of individual debt positions in an unrealized loss position in the tables above increased from 1,059 at December 31, 2017 to 1,459 at September 30, 2018. The increase in the number of securities and the total amount of unrealized losses from year-end 2017 was primarily due to changes in market interest rates. In instances where an unrealized loss existed, there was no indication of an adverse change in credit on the underlying positions in the tables above. As it relates to these positions, management believes no individual unrealized loss, other than those discussed below, represented an OTTI as of those dates. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, the positions before the recovery of their amortized cost basis, which may be at maturity.

As part of the Company's normal process for evaluating OTTI, management did identify a limited number of positions where an OTTI was believed to exist as of September 30, 2018.

Gross realized gains and gross realized losses on sales of debt securities available for sale from continuing operations are shown in the table below. The cost of securities sold is based on the specific identification method.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(In millions)				
Gross realized gains	\$1	\$5	\$4	\$9
Gross realized losses	(1)	—	(1)	(3)
OTTI	—	(1)	(2)	(1)
Debt securities available for sale gains (losses), net ⁽¹⁾	\$—	\$4	\$1	\$5

(1) The securities gains (losses), net balances above exclude net trading securities gains of \$4 million recognized during the third quarter of 2017.

EQUITY INVESTMENTS

Effective January 1, 2018, Regions adopted new accounting guidance that requires equity investments to be recorded at fair value with changes in fair value reported in net income. Regions elected a measurement alternative to fair value for certain equity investments without a readily determinable fair value. See Note 15 for related disclosure.

Marketable equity securities carried at fair value, which primarily consist of assets held for certain employee benefits and money market funds, are reported in other earning assets in the consolidated balance sheets. Total marketable equity securities were \$475 million and \$414 million at September 30, 2018 and December 31, 2017, respectively. Net unrealized holding gains for marketable equity securities were \$7 million at September 30, 2018.

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Equity investments without a readily determinable fair value primarily consist of investments in strategic partners and certain CRA projects. The carrying amount of equity investments measured under the measurement alternative, downward and upward adjustments for impairments and price changes from observable transactions are as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
	(In millions)	
Carrying value, beginning of period	\$39	\$ 31
Net additions	9	9
Downward adjustments for price changes and impairment	(2)	(2)
Upward adjustments for price changes	7	15
Carrying value, end of period	\$53	\$ 53

Total cumulative downward adjustments for equity investments without a determinable fair value for impairments and observable price changes were \$6 million. Total cumulative upward adjustments for price changes from observable transactions were \$15 million as of September 30, 2018.

NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

LOANS

The following table presents the distribution of Regions' loan portfolio by segment and class, net of unearned income:

	September 30, 2018	December 31, 2017
	(In millions, net of unearned income)	
Commercial and industrial	\$ 38,036	\$ 36,115
Commercial real estate mortgage—owner-occupied	5,943	6,193
Commercial real estate construction—owner-occupied	26	332
Total commercial	44,305	42,640
Commercial investor real estate mortgage	4,205	4,062
Commercial investor real estate construction	1,838	1,772
Total investor real estate	6,043	5,834
Residential first mortgage	14,220	14,061
Home equity	9,435	10,164
Indirect—vehicles	3,146	3,326
Indirect—other consumer	2,179	1,467
Consumer credit card	1,273	1,290
Other consumer	1,220	1,165
Total consumer	31,473	31,473
	\$ 81,821	\$ 79,947

During the three months ended September 30, 2018 and 2017, Regions purchased approximately \$188 million and \$6 million in indirect-other consumer loans from third parties, respectively. During the nine months ended September 30, 2018 and 2017, the comparable loan purchase amounts were approximately \$403 million and \$153 million, respectively.

At September 30, 2018, \$22.0 billion in securities and net eligible loans held by Regions were pledged to secure current and potential borrowings from the FHLB. At September 30, 2018, an additional \$24.1 billion in net eligible loans held by Regions were pledged to the FRB for potential borrowings.

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ALLOWANCE FOR CREDIT LOSSES

Regions determines the appropriate level of the allowance on a quarterly basis. Refer to Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements to the Annual Report on Form 10-K for the year ended December 31, 2017, for a description of the methodology.

ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present analyses of the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2018 and 2017. The total allowance for loan losses and the related loan portfolio ending balances are disaggregated to detail the amounts derived through individual evaluation and collective evaluation for impairment. The allowance for loan losses related to individually evaluated loans is attributable to reserves for non-accrual commercial and investor real estate loans and all TDRs. The allowance for loan losses and the loan portfolio ending balances related to collectively evaluated loans is attributable to the remainder of the portfolio.

Three Months Ended September 30,
2018

	Commercial	Investor Real Estate	Consumer	Total
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(In millions)

Allowance for loan losses, July 1, 2018	\$551	\$ 48	\$ 239	\$838
Provision (credit) for loan losses	12	(1)	73	84
Loan losses:				
Charge-offs	(41)	(1)	(65)	(107)
Recoveries	10	2	13	25
Net loan (losses) recoveries	(31)	1	(52)	(82)
Allowance for loan losses, September 30, 2018	532	48	260	840
Reserve for unfunded credit commitments, July 1, 2018	44	4	—	48
Provision (credit) for unfunded credit losses	2	—	—	2
Reserve for unfunded credit commitments, September 30, 2018	46	4	—	50
Allowance for credit losses, September 30, 2018	\$578	\$ 52	\$ 260	\$890

Three Months Ended September 30,
2017

	Commercial	Investor Real Estate	Consumer	Total
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(In millions)

Allowance for loan losses, July 1, 2017	\$707	\$ 82	\$ 252	\$1,041
Provision (credit) for loan losses	8	(8)	76	76
Loan losses:				
Charge-offs	(43)	—	(63)	(106)
Recoveries	11	3	16	30
Net loan (losses) recoveries	(32)	3	(47)	(76)
Allowance for loan losses, September 30, 2017	683	77	281	1,041
Reserve for unfunded credit commitments, July 1, 2017	63	4	—	67
Provision (credit) for unfunded credit losses	(8)	—	—	(8)
Reserve for unfunded credit commitments, September 30, 2017	55	4	—	59
Allowance for credit losses, September 30, 2017	\$738	\$ 81	\$ 281	\$1,100

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Nine Months Ended September 30, 2018

	Commercial	Investor Real Estate	Consumer	Total
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(In millions)

Allowance for loan losses, January 1, 2018	\$591	\$ 64	\$ 279	\$ 934
Provision (credit) for loan losses	12	(13) 135	134
Loan losses:				
Charge-offs	(105	) (9	) (200	) (314
Recoveries	34	6	46	86
Net loan (losses) recoveries	(71	) (3	) (154	) (228
Allowance for loan losses, September 30, 2018	532	48	260	840
Reserve for unfunded credit commitments, January 1, 2018	49	4	—	53
Provision (credit) for unfunded credit losses	(3	) —	—	(3
Reserve for unfunded credit commitments, September 30, 2018	46	4	—	50
Allowance for credit losses, September 30, 2018	\$578	\$ 52	\$ 260	\$ 890
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	\$ 119	\$ 5	\$ 26	\$ 150
Collectively evaluated for impairment	413	43	234	690
Total allowance for loan losses	\$532	\$ 48	\$ 260	\$ 840
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	\$599	\$ 51	\$ 438	\$ 1,088
Collectively evaluated for impairment	43,706	5,992	31,035	80,733
Total loans evaluated for impairment	\$44,305	\$ 6,043	\$ 31,473	\$ 81,821

Nine Months Ended September 30, 2017

	Commercial	Investor Real Estate	Consumer	Total
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(In millions)

Allowance for loan losses, January 1, 2017	\$753	\$ 85	\$ 253	\$ 1,091
Provision (credit) for loan losses	41	(16) 169	194
Loan losses:				
Charge-offs	(139	) (2	) (188	) (329
Recoveries	28	10	47	85
Net loan (losses) recoveries	(111	) 8	(141	) (244
Allowance for loan losses, September 30, 2017	683	77	281	1,041
Reserve for unfunded credit commitments, January 1, 2017	64	5	—	69
Provision (credit) for unfunded credit losses	(9	) (1	) —	(10
Reserve for unfunded credit commitments, September 30, 2017	55	4	—	59
Allowance for credit losses, September 30, 2017	\$738	\$ 81	\$ 281	\$ 1,100
Portion of ending allowance for loan losses:				
Individually evaluated for impairment	\$202	\$ 19	\$ 52	\$ 273
Collectively evaluated for impairment	481	58	229	768
Total allowance for loan losses	\$683	\$ 77	\$ 281	\$ 1,041
Portion of loan portfolio ending balance:				
Individually evaluated for impairment	\$898	\$ 108	\$ 727	\$ 1,733
Collectively evaluated for impairment	41,164	5,827	30,632	77,623
Total loans evaluated for impairment	\$42,062	\$ 5,935	\$ 31,359	\$ 79,356

PORTFOLIO SEGMENT RISK FACTORS

The following describe the risk characteristics relevant to each of the portfolio segments.

Commercial—The commercial portfolio segment includes commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases or other expansion projects.

Commercial also includes owner-occupied commercial real estate mortgage loans to operating businesses, which are loans for long-term financing of land and buildings, and are repaid by cash flow generated by business operations.

Owner-occupied construction loans

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are made to commercial businesses for the development of land or construction of a building where the repayment is derived from revenues generated from the business of the borrower. Collection risk in this portfolio is driven by the creditworthiness of underlying borrowers, particularly cash flow from customers' business operations, and the sensitivity to market fluctuations in commodity prices.

Investor Real Estate—Loans for real estate development are repaid through cash flow related to the operation, sale or refinance of the property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of real estate or income generated from the real estate collateral. A portion of Regions' investor real estate portfolio segment consists of loans secured by residential product types (land, single-family and condominium loans) within Regions' markets. Additionally, these loans are made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. Loans in this portfolio segment are particularly sensitive to the valuation of real estate.

Consumer—The consumer portfolio segment includes residential first mortgage, home equity, indirect-vehicles, indirect-other consumer, consumer credit card, and other consumer loans. Residential first mortgage loans represent loans to consumers to finance a residence. These loans are typically financed over a 15 to 30 year term and, in most cases, are extended to borrowers to finance their primary residence. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values as of the time the loan or line is secured directly affect the amount of credit extended and, in addition, changes in these values impact the depth of potential losses. Indirect-vehicles lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. Indirect-other consumer lending represents other point of sale lending through third parties. Consumer credit card lending includes Regions branded consumer credit card accounts. Other consumer loans include other revolving consumer accounts, direct consumer loans, and overdrafts. Loans in this portfolio segment are sensitive to unemployment and other key consumer economic measures.

CREDIT QUALITY INDICATORS

The following tables present credit quality indicators for portfolio segments and classes, excluding loans held for sale, as of September 30, 2018, and December 31, 2017. Commercial and investor real estate portfolio segments are detailed by categories related to underlying credit quality and probability of default. Regions assigns these categories at loan origination and reviews the relationship utilizing a risk-based approach on, at minimum, an annual basis or at any time management becomes aware of information affecting the borrowers' ability to fulfill their obligations. Both quantitative and qualitative factors are considered in this review process. These categories are utilized to develop the associated allowance for credit losses.

Pass—includes obligations where the probability of default is considered low;

Special Mention—includes obligations that have potential weakness that may, if not reversed or corrected, weaken the credit or inadequately protect the Company's position at some future date. Obligations in this category may also be subject to economic or market conditions that may, in the future, have an adverse effect on debt service ability;

Substandard Accrual—includes obligations that exhibit a well-defined weakness that presently jeopardizes debt repayment, even though they are currently performing. These obligations are characterized by the distinct possibility that the Company may incur a loss in the future if these weaknesses are not corrected;

Non-accrual—includes obligations where management has determined that full payment of principal and interest is in doubt.

Substandard accrual and non-accrual loans are often collectively referred to as "classified." Special mention, substandard accrual, and non-accrual loans are often collectively referred to as "criticized and classified." Classes in the consumer portfolio segment are disaggregated by accrual status.

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	September 30, 2018				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	\$36,582	\$ 751	\$362	\$ 341	\$38,036
Commercial real estate mortgage—owner-occupied	5,547	200	116	80	5,943
Commercial real estate construction—owner-occupied	299	3	16	8	326
Total commercial	\$42,428	\$ 954	\$494	\$ 429	\$44,305
Commercial investor real estate mortgage	\$4,072	\$ 82	\$49	\$ 2	\$4,205
Commercial investor real estate construction	1,819	12	7	—	1,838
Total investor real estate	\$5,891	\$ 94	\$56	\$ 2	\$6,043

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	\$14,178	\$ 42	\$14,220
Home equity	9,369	66	9,435
Indirect—vehicles	3,146	—	3,146
Indirect—other consumer	2,179	—	2,179
Consumer credit card	1,273	—	1,273
Other consumer	1,220	—	1,220
Total consumer	\$31,365	\$ 108	\$31,473
			\$81,821

	December 31, 2017				
	Pass	Special Mention	Substandard Accrual	Non-accrual	Total
	(In millions)				
Commercial and industrial	\$34,420	\$ 686	\$605	\$ 404	\$36,115
Commercial real estate mortgage—owner-occupied	5,674	236	165	118	6,193
Commercial real estate construction—owner-occupied	113	3	10	6	332
Total commercial	\$40,407	\$ 925	\$780	\$ 528	\$42,640
Commercial investor real estate mortgage	\$3,905	\$ 63	\$89	\$ 5	\$4,062
Commercial investor real estate construction	1,706	19	46	1	1,772
Total investor real estate	\$5,611	\$ 82	\$135	\$ 6	\$5,834

	Accrual	Non-accrual	Total
	(In millions)		
Residential first mortgage	\$14,014	\$ 47	\$14,061
Home equity	10,095	69	10,164
Indirect—vehicles	3,326	—	3,326
Indirect—other consumer	1,467	—	1,467
Consumer credit card	1,290	—	1,290
Other consumer	1,165	—	1,165
Total consumer	\$31,357	\$ 116	\$31,473
			\$79,947

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AGING ANALYSIS

The following tables include an aging analysis of DPD for each portfolio segment and class as of September 30, 2018 and December 31, 2017:

	September 30, 2018						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	\$39	\$ 6	\$ 4	\$ 49	\$37,695	\$ 341	\$38,036
Commercial real estate mortgage—owner-occupied	6	2	2	20	5,863	80	5,943
Commercial real estate construction—owner-occupied	—	—	—	—	318	8	326
Total commercial	55	8	6	69	43,876	429	44,305
Commercial investor real estate mortgage	6	—	—	6	4,203	2	4,205
Commercial investor real estate construction	—	—	—	—	1,838	—	1,838
Total investor real estate	6	—	—	6	6,041	2	6,043
Residential first mortgage	82	43	144	269	14,178	42	14,220
Home equity	53	24	39	116	9,369	66	9,435
Indirect—vehicles	39	12	9	60	3,146	—	3,146
Indirect—other consumer	11	5	1	17	2,179	—	2,179
Consumer credit card	11	8	17	36	1,273	—	1,273
Other consumer	15	5	4	24	1,220	—	1,220
Total consumer	211	97	214	522	31,365	108	31,473
	\$272	\$ 105	\$ 220	\$ 597	\$81,282	\$ 539	\$81,821

	December 31, 2017						
	Accrual Loans						
	30-59 DPD	60-89 DPD	90+ DPD	Total 30+ DPD	Total Accrual	Non-accrual	Total
	(In millions)						
Commercial and industrial	\$28	\$ 7	\$ 4	\$ 39	\$35,711	\$ 404	\$36,115
Commercial real estate mortgage—owner-occupied	8	8	1	27	6,075	118	6,193
Commercial real estate construction—owner-occupied	—	—	—	—	326	6	332
Total commercial	46	15	5	66	42,112	528	42,640
Commercial investor real estate mortgage	1	1	1	3	4,057	5	4,062
Commercial investor real estate construction	—	—	—	—	1,771	1	1,772
Total investor real estate	1	1	1	3	5,828	6	5,834
Residential first mortgage	95	85	216	396	14,014	47	14,061
Home equity	53	27	37	117	10,095	69	10,164
Indirect—vehicles	48	13	9	70	3,326	—	3,326
Indirect—other consumer	9	5	—	14	1,467	—	1,467
Consumer credit card	11	7	19	37	1,290	—	1,290
Other consumer	13	4	4	21	1,165	—	1,165
Total consumer	229	141	285	655	31,357	116	31,473
	\$276	\$ 157	\$ 291	\$ 724	\$79,297	\$ 650	\$79,947

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IMPAIRED LOANS

The following tables present details related to the Company's impaired loans as of September 30, 2018 and December 31, 2017. Loans deemed to be impaired include all TDRs and all non-accrual commercial and investor real estate loans, excluding leases. Loans that have been fully charged-off do not appear in the tables below.

Non-accrual Impaired Loans As of September 30, 2018

	Unpaid Principal Balance ⁽¹⁾	Charge-offs and Payments Applied ⁽²⁾	Book Value ⁽³⁾		Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
			Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with Related Allowance			
(Dollars in millions)							
Commercial and industrial	\$420	\$ 79	\$341	\$ 110	\$ 231	\$ 65	34.3 %
Commercial real estate mortgage—owner-occupied	91	11	80	18	62	24	38.5
Commercial real estate construction—owner-occupied	9	1	8	1	7	3	44.4
Total commercial	520	91	429	129	300	92	35.2
Commercial investor real estate mortgage	2	—	2	—	2	1	50.0
Total investor real estate	2	—	2	—	2	1	50.0
Residential first mortgage	34	9	25	—	25	2	32.4
Home equity	10	1	9	—	9	—	10.0
Total consumer	44	10	34	—	34	2	27.3
	\$566	\$ 101	\$465	\$ 129	\$ 336	\$ 95	34.6 %

Accruing Impaired Loans As of September 30, 2018

	Unpaid Principal Balance ⁽¹⁾	Charge-offs and Payments Applied ⁽²⁾	Book Value ⁽³⁾	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
(Dollars in millions)					
Commercial and industrial	\$143	\$ 1	\$ 142	\$ 24	17.5 %
Commercial real estate mortgage—owner-occupied	30	2	28	3	16.7
Total commercial	173	3	170	27	17.3
Commercial investor real estate mortgage	50	1	49	4	10.0
Total investor real estate	50	1	49	4	10.0
Residential first mortgage	197	9	188	18	13.7
Home equity	209	—	209	6	2.9
Consumer credit card	1	—	1	—	—
Other consumer	6	—	6	—	—
Total consumer	413	9	404	24	8.0
	\$636	\$ 13	\$ 623	\$ 55	10.7 %

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Total Impaired Loans As of September 30, 2018

Book Value⁽³⁾

	Unpaid Principal Balance ⁽¹⁾	Charge-offs and Payments Applied ⁽²⁾	Total Impaired Loans	Impaired Loans with Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
(Dollars in millions)							
Commercial and industrial	\$563	\$ 80	\$483	\$ 110	\$ 373	\$ 89	30.0 %
Commercial real estate mortgage—owner-occupied	121	13	108	18	90	27	33.1
Commercial real estate construction—owner-occupied	9	1	8	1	7	3	44.4
Total commercial	693	94	599	129	470	119	30.7
Commercial investor real estate mortgage	52	1	51	—	51	5	11.5
Total investor real estate	52	1	51	—	51	5	11.5
Residential first mortgage	231	18	213	—	213	20	16.5
Home equity	219	1	218	—	218	6	3.2
Consumer credit card	1	—	1	—	1	—	—
Other consumer	6	—	6	—	6	—	—
Total consumer	457	19	438	—	438	26	9.8
	\$1,202	\$ 114	\$1,088	\$ 129	\$ 959	\$ 150	22.0 %

Non-accrual Impaired Loans As of December 31, 2017

Book Value⁽³⁾

	Unpaid Principal Balance ⁽¹⁾	Charge-offs and Payments Applied ⁽²⁾	Total Impaired Loans on Non-accrual Status	Impaired Loans on Non-accrual Status with Related Allowance	Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
(Dollars in millions)							
Commercial and industrial	\$480	\$ 80	\$400	\$ 29	\$ 371	\$ 103	38.1 %
Commercial real estate mortgage—owner-occupied	133	15	118	20	98	38	39.8
Commercial real estate construction—owner-occupied	7	1	6	—	6	3	57.1
Total commercial	620	96	524	49	475	144	38.7
Commercial investor real estate mortgage	6	1	5	—	5	2	50.0
Commercial investor real estate construction	1	—	1	—	1	—	—
Total investor real estate	7	1	6	—	6	2	42.9
Residential first mortgage	42	11	31	—	31	3	33.3
Home equity	10	1	9	—	9	—	10.0
Total consumer	52	12	40	—	40	3	28.8
	\$679	\$ 109	\$570	\$ 49	\$ 521	\$ 149	38.0 %

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Accruing Impaired Loans As of December 31, 2017

	Unpaid Charge-offs Principal and Payments Balance Applied ⁽²⁾		Book Value ⁽³⁾		Impaired Loans on Accrual Status with Related Allowance	Impaired Loans with No Related Allowance	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
			Total Loans Accrued on Status with No Related Allowance	Impaired Loans with No Related Allowance				
	(Dollars in millions)							
Commercial and industrial	\$154	\$ 8	\$146	\$ 1	\$ 145	\$ 19	17.5	%
Commercial real estate mortgage—owner-occupied	90	5	85	—	85	8	14.4	
Commercial real estate construction—owner-occupied	1	—	1	—	1	—	—	
Total commercial	245	13	232	1	231	27	16.3	
Commercial investor real estate mortgage	63	2	61	—	61	3	7.9	
Commercial investor real estate construction	29	—	29	—	29	3	10.3	
Total investor real estate	92	2	90	—	90	6	8.7	
Residential first mortgage	419	13	406	—	406	39	12.4	
Home equity	251	1	250	—	250	5	2.4	
Consumer credit card	1	—	1	—	1	—	—	
Other consumer	9	—	9	—	9	—	—	
Total consumer	680	14	666	—	666	44	8.5	
	\$1,017	\$ 29	\$988	\$ 1	\$ 987	\$ 77	10.4	%

Total Impaired Loans As of December 31, 2017

	Unpaid Charge-offs Principal and Payments Balance Applied ⁽²⁾		Book Value ⁽³⁾		Impaired Loans with No Related Allowance	Impaired Loans with No Related Allowance	Related Allowance for Loan Losses	Coverage % ⁽⁴⁾
			Total Loans Impaired	Impaired Loans with No Related Allowance				
	(Dollars in millions)							
Commercial and industrial	\$634	\$ 88	\$546	\$ 30	\$ 516	\$ 122	33.1	%
Commercial real estate mortgage—owner-occupied	223	20	203	20	183	46	29.6	
Commercial real estate construction—owner-occupied	8	1	7	—	7	3	50.0	
Total commercial	865	109	756	50	706	171	32.4	
Commercial investor real estate mortgage	69	3	66	—	66	5	11.6	
Commercial investor real estate construction	30	—	30	—	30	3	10.0	
Total investor real estate	99	3	96	—	96	8	11.1	
Residential first mortgage	461	24	437	—	437	42	14.3	
Home equity	261	2	259	—	259	5	2.7	
Consumer credit card	1	—	1	—	1	—	—	
Other consumer	9	—	9	—	9	—	—	

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Total consumer	732	26	706	—	706	47	10.0
	\$1,696	\$ 138	\$1,558	\$ 50	\$ 1,508	\$ 226	21.5 %

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- (1) Unpaid principal balance represents the contractual obligation due from the customer and includes the net book value plus charge-offs and payments applied.
- (2) Charge-offs and payments applied represents cumulative partial charge-offs taken, as well as interest payments received that have been applied against the outstanding principal balance.
- (3) Book value represents the unpaid principal balance less charge-offs and payments applied; it is shown before any allowance for loan losses.
- (4) Coverage % represents charge-offs and payments applied plus the related allowance as a percent of the unpaid principal balance.

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The following table presents the average balances of total impaired loans and interest income for the three and nine months ended September 30, 2018 and 2017. Interest income recognized represents interest on accruing loans modified in a TDR.

	Three Months Ended September 30 2018		2017		Nine Months Ended September 30 2018		2017	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
	(In millions)							
Commercial and industrial	\$471	\$ 2	\$748	\$ 3	\$507	\$ 7	\$804	\$ 9
Commercial real estate mortgage—owner-occupied	120	1	209	2	141	6	234	4
Commercial real estate construction—owner-occupied	6	—	5	—	6	—	5	—
Total commercial	597	3	962	5	654	13	1,043	13
Commercial investor real estate mortgage	52	1	93	1	68	3	87	3
Commercial investor real estate construction	—	—	40	1	10	—	42	2
Total investor real estate	52	1	133	2	78	3	129	5
Residential first mortgage	210	2	448	4	237	6	454	12
Home equity	222	2	275	4	238	9	285	11
Consumer credit card	1	—	2	—	1	—	2	—
Other consumer	7	—	9	—	7	—	10	—
Total consumer	440	4	734	8	483	15	751	23
Total impaired loans	\$1,089	\$ 8	\$1,829	\$ 15	\$1,215	\$ 31	\$1,923	\$ 41

TROUBLED DEBT RESTRUCTURINGS

Regions regularly modifies commercial and investor real estate loans in order to facilitate a workout strategy. Similarly, Regions works to meet the individual needs of consumer borrowers to stem foreclosure through its CAP. Refer to Note 6 "Allowance For Credit Losses" in the 2017 Annual Report on Form 10-K for additional information regarding the Company's TDRs.

Further discussion related to TDRs, including their impact on the allowance for loan losses and designation of TDRs in periods subsequent to the modification is included in Note 1 "Summary of Significant Accounting Policies" in the 2017 Annual Report on Form 10-K.

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The following tables present the end of period balance for loans modified in a TDR during the periods presented by portfolio segment and class, and the financial impact of those modifications. The tables include modifications made to new TDRs, as well as renewals of existing TDRs. Loans first reported as TDRs during the nine months ended September 30, 2018 and 2017 totaled approximately \$330 million and \$456 million, respectively.

	Three Months Ended September 30, 2018		
	Number of Obligations	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	27	\$ 94	\$ 1
Commercial real estate mortgage—owner-occupied	16	13	—
Total commercial	43	107	1
Commercial investor real estate mortgage	5	16	1
Total investor real estate	5	16	1
Residential first mortgage	43	11	1
Home equity	28	2	—
Consumer credit card	14	—	—
Indirect—vehicles and other consumer	22	1	—
Total consumer	107	14	1
	155	\$ 137	\$ 3
	Three Months Ended September 30, 2017		
	Number of Obligations	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	37	\$ 157	\$ 2
Commercial real estate mortgage—owner-occupied	33	32	1
Total commercial	70	189	3
Commercial investor real estate mortgage	8	45	2
Total investor real estate	8	45	2
Residential first mortgage	67	9	1
Home equity	10	1	—
Consumer credit card	11	—	—
Indirect—vehicles and other consumer	38	1	—
Total consumer	126	11	1
	204	\$ 245	\$ 6

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	Nine Months Ended September 30, 2018		
	Number of Obligations	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	82	\$ 308	\$ 4
Commercial real estate mortgage—owner-occupied	54	37	—
Total commercial	136	345	4
Commercial investor real estate mortgage	20	65	3
Total investor real estate	20	65	3
Residential first mortgage	141	25	3
Home equity	75	5	—
Consumer credit card	39	—	—
Indirect—vehicles and other consumer	55	1	—
Total consumer	310	31	3
	466	\$ 441	\$ 10
	Nine Months Ended September 30, 2017		
	Number of Obligations	Recorded Investment	Financial Impact of Modifications Considered TDRs Increase in Allowance at Modification
	(Dollars in millions)		
Commercial and industrial	106	\$ 449	\$ 9
Commercial real estate mortgage—owner-occupied	94	97	3
Commercial real estate construction—owner-occupied	1	2	—
Total commercial	203	548	12
Commercial investor real estate mortgage	33	93	3
Commercial investor real estate construction	5	70	2
Total investor real estate	38	163	5
Residential first mortgage	168	34	4
Home equity	101	8	—
Consumer credit card	54	—	—
Indirect—vehicles and other consumer	125	2	—
Total consumer	448	44	4
	689	\$ 755	\$ 21

Defaulted TDRs

The following table presents, by portfolio segment and class, TDRs that defaulted during the three and nine months ended September 30, 2018 and 2017, and that were modified in the previous twelve months (i.e., the twelve months prior to the default). For purposes of this disclosure, default is defined as placement on non-accrual status for the commercial and investor real estate portfolio segments, and 90 days past due and still accruing for the consumer portfolio segment. Consideration of defaults in the calculation of the allowance for loan losses is described in detail in

the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

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	Three Months Ended September 30 2018	Nine Months Ended September 30 2017	Three Months Ended September 30 2018	Nine Months Ended September 30 2017
Defaulted During the Period, Where Modified in a TDR Twelve Months Prior to Default				
Commercial and industrial	\$4	\$ 1	\$ 25	\$ 9
Commercial real estate mortgage—owner-occupied	—	1	1	1
Total commercial	4	2	26	10
Residential first mortgage	2	1	6	6
Home equity	—	—	—	1
Total consumer	2	1	6	7
	\$6	\$ 3	\$ 32	\$ 17

Commercial and investor real estate loans that were on non-accrual status at the time of the latest modification are not included in the default table above, as they are already considered to be in default at the time of the restructuring. At September 30, 2018, approximately \$66 million of commercial and investor real estate loans modified in a TDR during the three months ended September 30, 2018 were on non-accrual status. Approximately 39 percent of this amount was 90 days past due.

At September 30, 2018, Regions had restructured binding unfunded commitments totaling \$8 million where a concession was granted and the borrower was in financial difficulty.

NOTE 5. SERVICING OF FINANCIAL ASSETS

RESIDENTIAL MORTGAGE BANKING ACTIVITIES

The fair value of residential MSR's is calculated using various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors. A significant change in prepayments of mortgages in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of residential MSR's. The Company compares fair value estimates and assumptions to observable market data where available, and also considers recent market activity and actual portfolio experience.

The table below presents an analysis of residential MSR's under the fair value measurement method:

	Three Months Ended September 30 2018	Three Months Ended September 30 2017	Nine Months Ended September 30 2018	Nine Months Ended September 30 2017
	(In millions)			
Carrying value, beginning of period	\$362	\$346	\$336	\$324
Additions	50	10	67	56
Increase (decrease) in fair value:				
Due to change in valuation inputs or assumptions	6	(9)	38	(12)
Economic amortization associated with borrower repayments ⁽¹⁾	(12)	(12)	(35)	(33)
Carrying value, end of period	\$406	\$335	\$406	\$335

(1) "Economic amortization associated with borrower repayments" includes both total loan payoffs as well as partial paydowns.

On April 28, 2017, the Company purchased the rights to service approximately \$2.7 billion in residential mortgage loans for approximately \$30 million.

On July 31, 2018, the Company purchased the rights to service approximately \$3.4 billion in residential mortgage loans for approximately \$42 million.

Data and assumptions used in the fair value calculation, as well as the valuation's sensitivity to rate fluctuations, related to residential MSR's (excluding related derivative instruments) are as follows:

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	September 30			
	2018		2017	
	(Dollars in millions)			
Unpaid principal balance	\$34,142		\$32,586	
Weighted-average CPR (%)	8.3	%	10.0	%
Estimated impact on fair value of a 10% increase	\$(23	)	\$(22)
Estimated impact on fair value of a 20% increase	\$(44	)	\$(40)
Option-adjusted spread (basis points)	802		860	
Estimated impact on fair value of a 10% increase	\$(13	)	\$(11)
Estimated impact on fair value of a 20% increase	\$(26	)	\$(23)
Weighted-average coupon interest rate	4.1	%	4.1	%
Weighted-average remaining maturity (months)	280		282	
Weighted-average servicing fee (basis points)	27.3		27.4	

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. Changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of an adverse variation in a particular assumption on the fair value of residential MSRs is calculated without changing any other assumption, while in reality changes in one factor may result in changes in another, which may either magnify or counteract the effect of the change. The derivative instruments utilized by Regions would serve to reduce the estimated impacts to fair value included in the table above.

The following table presents servicing related fees, which includes contractually specified servicing fees, late fees and other ancillary income resulting from the servicing of residential mortgage loans:

	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30		30	
	2018	2017	2018	2017
	(In millions)			

Servicing related fees and other ancillary income	\$24	\$24	\$70	\$71
---	------	------	------	------

Residential mortgage loans are sold in the secondary market with standard representations and warranties regarding certain characteristics such as the quality of the loan, the absence of fraud, the eligibility of the loan for sale and the future servicing associated with the loan. Regions may be required to repurchase these loans at par, or make-whole or indemnify the purchasers for losses incurred when representations and warranties are breached.

Regions maintains an immaterial repurchase liability related to residential mortgage loans sold with representations and warranty provisions. This repurchase liability is reported in other liabilities on the consolidated balance sheets and reflects management's estimate of losses based on historical repurchase and loss trends, as well as other factors that may result in anticipated losses different from historical loss trends. Adjustments to this reserve are recorded in other non-interest expense on the consolidated statements of income.

COMMERCIAL MORTGAGE BANKING ACTIVITIES

Regions is an approved DUS lender. The DUS program provides liquidity to the multi-family housing market. In connection with the DUS program, Regions services commercial loans, retains commercial MSRs and intangible assets associated with the DUS license, and assumes a loss share guarantee associated with the loans. See Note 1 "Summary of Significant Accounting Policies" in the 2017 Annual Report on Form 10-K for additional information. Also see Note 13 herein for additional information related to the guarantee.

As of September 30, 2018 and December 31, 2017, the DUS servicing portfolio was approximately \$3.2 billion and \$2.9 billion, respectively. The related commercial MSRs were valued at approximately \$52 million and \$48 million at September 30, 2018 and December 31, 2017, respectively. The estimated fair value of the loss share guarantee was

valued at approximately \$4 million at both September 30, 2018 and December 31, 2017.

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NOTE 6. GOODWILL

Goodwill allocated to each reportable segment (each a reporting unit) is presented as follows:

	September 30, 2018	December 31, 2017
	(In millions)	
Corporate Bank	\$2,474	\$ 2,474
Consumer Bank	1,978	1,978
Wealth Management	377	452
	\$4,829	\$ 4,904

The goodwill allocated to the Wealth Management reportable segment decreased due to the sale of Regions Insurance Group in the third quarter of 2018. See Note 2 for related disclosure.

Regions evaluates each reporting unit's goodwill for impairment on an annual basis in the fourth quarter, or more often if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A detailed description of the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit is included in the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the implied fair value of goodwill.

During the third quarter of 2018, Regions assessed events and circumstances for all three reporting units as of September 30, 2018, and through the date of the filing of this Quarterly Report on Form 10-Q that could potentially indicate goodwill impairment. The indicators assessed included:

- Recent operating performance,
- Changes in market capitalization,
- Regulatory actions and assessments,
- Changes in the business climate (including legislation, legal factors, and competition),
- Company-specific factors (including changes in key personnel, asset impairments, and business dispositions), and
- Trends in the banking industry.

After assessing the indicators noted above, Regions determined that it was not more likely than not that the fair value of each of its reporting units had declined below their carrying value as of September 30, 2018. Therefore, Regions determined that a test of goodwill impairment was not required for each of Regions' reporting units for the September 30, 2018 interim period.

NOTE 7. STOCKHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) PREFERRED STOCK

The following table presents a summary of the non-cumulative perpetual preferred stock:

Issuance Date	Earliest Redemption Date	Dividend Rate	Liquidation Amount	September 30, 2018	December 31, 2017
				Carrying Amount	Carrying Amount
(Dollars in millions)					
Series A 11/1/2012	12/15/2017	6.375%	\$ 500	\$ 387	\$ 387
Series B 4/29/2014	9/15/2024	6.375% ⁽¹⁾	500	433	433
			\$ 1,000	\$ 820	\$ 820

(1) Dividends, if declared, will be paid quarterly at an annual rate equal to (i) for each period beginning prior to September 15, 2024, 6.375%, and (ii) for each period beginning on or after September 15, 2024, three-month LIBOR plus 3.536%.

For each preferred stock issuance listed above, Regions issued depositary shares, each representing a 1/40th ownership interest in a share of the Company's preferred stock, with a liquidation preference of \$1,000.00 per share of

preferred stock (equivalent to \$25.00 per depositary share). Dividends on the preferred stock, if declared, accrue and are payable quarterly in arrears. The preferred stock has no stated maturity and redemption is solely at Regions' option, subject to regulatory approval, in whole, or in part, after the earliest redemption date or in whole, but not in part, within 90 days following a regulatory capital

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treatment event for the Series A preferred stock or at any time following a regulatory capital treatment event for the Series B preferred stock.

The Board of Directors declared \$24 million in cash dividends on both Series A and Series B Preferred Stock during the first nine months of 2018 and 2017.

In the event Series A and Series B preferred shares are redeemed at the liquidation amounts, \$113 million and \$67 million excess of the redemption amount over the carrying amount will be recognized, respectively. Approximately \$100 million of Series A preferred dividends that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to retained earnings, and approximately \$13 million of related issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income available to common shareholders. Approximately \$52 million of Series B preferred dividends that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to retained earnings, and approximately \$15 million of related issuance costs that were recorded as a reduction of preferred stock, including related surplus, will be recorded as a reduction to net income available to common shareholders.

COMMON STOCK

On June 28, 2018, Regions received no objection from the Federal Reserve to its 2018 capital plan that was submitted as part of the CCAR process, which included the repurchase of common shares and a common stock dividend increase. As part of the Company's capital plan, the Board authorized a new \$2.031 billion common stock repurchase plan, permitting repurchases from the beginning of the third quarter of 2018 through the second quarter of 2019. This plan is inclusive of the capital generated from the sale of Regions Insurance Group, Inc. and related affiliates (see Note 2). The capital plan included a proposed increase of the quarterly common stock dividend to \$0.14 per common share that began in the third quarter of 2018.

As of September 30, 2018, Regions has repurchased 59.6 million shares of common stock under the 2018 capital plan at a total cost of approximately \$1.3 billion. The common share repurchases and total cost paid include amounts related to a contractual repurchase agreement entered into on August 27, 2018, through which the Company made a payment of \$700 million, and received an initial delivery of approximately 29.1 million shares, representing approximately 80 percent of the total value of the transaction. The final number of shares repurchased is based on the volume-weighted average stock price of the Company's common stock during the term of the transaction, less a discount and subject to adjustments pursuant to the agreement. These shares were immediately retired upon repurchase and, therefore, are not included in treasury stock. The counterparty to the Company's contractual repurchase agreement completed the transaction on October 24, 2018, and final settlement resulted in an additional delivery of 8.8 million shares of common stock on October 29, 2018. The Company also continued open market share repurchases under the capital plan in the fourth quarter of 2018. As of November 6, 2018, Regions had repurchased approximately 25.3 million shares of common stock at a total cost of approximately \$274.5 million. All of these shares were immediately retired upon repurchase and, therefore, will not be included in treasury stock.

Prior to the new common stock repurchase plan, Regions had authorization to repurchase \$1.47 billion in common shares. As of June 30, 2018, Regions had repurchased approximately 90.6 million shares of common stock at a total cost of approximately \$1.47 billion under this plan and concluded the plan during the second quarter of 2018.

Regions' Board declared a cash dividend for third quarter of 2018 of \$0.14 per share and \$0.09 per common share for both the second and first quarters of 2018, totaling \$0.32 per common share for the first nine months of 2018. The Board declared \$0.09 per common share for the third quarter of 2017 as compared to \$0.07 per common share for the second quarter of 2017 and \$0.065 per common share for the first quarter of 2017, respectively, totaling \$0.225 per common share for the first nine months of 2017.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Activity within the balances in accumulated other comprehensive income (loss), net is shown in the following tables:

Three Months Ended September 30, 2018				
Unrealized losses on	Unrealized gains (losses) on	Unrealized gains (losses) on	Defined benefit	Accumulated other comprehensive

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	securities transferred to held to maturity (In millions)	securities available for sale	derivative instruments designated as cash flow hedges	pension plans and other post employment benefits	income (loss), net of tax
Beginning of period	\$ (30)	\$ (530)	\$ (197)	\$ (498)	\$ (1,255)
Net change	2	(102)	(44)	5	(139)
End of period	\$ (28)	\$ (632)	\$ (241)	\$ (493)	\$ (1,394)

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	Three Months Ended September 30, 2017				
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (30)	\$ (55)	\$ 11	\$ (405)	\$ (479)
Net change	1	21	(4)	7	25
End of period	\$ (29)	\$ (34)	\$ 7	\$ (398)	\$ (454)
	Nine Months Ended September 30, 2018				
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (33)	\$ (153)	\$ (51)	\$ (512)	\$ (749)
Net change	5	(479)	(190)	19	(645)
End of period	\$ (28)	\$ (632)	\$ (241)	\$ (493)	\$ (1,394)
	Nine Months Ended September 30, 2017				
	Unrealized losses on securities transferred to held to maturity	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative instruments designated as cash flow hedges	Defined benefit pension plans and other post employment benefits	Accumulated other comprehensive income (loss), net of tax
	(In millions)				
Beginning of period	\$ (33)	\$ (106)	\$ 11	\$ (422)	\$ (550)
Net change	4	72	(4)	24	96
End of period	\$ (29)	\$ (34)	\$ 7	\$ (398)	\$ (454)

The following table presents amounts reclassified out of accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017:

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	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾ (In millions)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	Affected Line Item in the Consolidated Statements of Income
Details about Accumulated Other Comprehensive Income (Loss) Components					
Unrealized losses on securities transferred to held to maturity:					
	\$ (3)	\$ (2)			Net interest income and other financing income
	1	1			Tax (expense) or benefit
	\$ (2)	\$ (1)			Net of tax
Unrealized gains and (losses) on available for sale securities:					
	\$ (1)	\$ 4			Securities gains (losses), net
	—	(2)			Tax (expense) or benefit
	\$ (1)	\$ 2			Net of tax
Gains and (losses) on cash flow hedges:					
Interest rate contracts					
	\$ —	\$ 17			Net interest income and other financing income
	—	(7)			Tax (expense) or benefit
	\$ —	\$ 10			Net of tax
Amortization of defined benefit pension plans and other post employment benefits:					
Actuarial gains (losses) and settlements					
	\$ (8)	\$ (11)			(2)
	(8)	(11)			Total before tax
	2	4			Tax (expense) or benefit
	\$ (6)	\$ (7)			Net of tax
Total reclassifications for the period	\$ (9)	\$ 4			Net of tax

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	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾ (In millions)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) ⁽¹⁾	Affected Line Item in the Consolidated Statements of Income
Unrealized losses on securities transferred to held to maturity:	\$ (7)	\$ (7)	Net interest income and other financing income
	2	3	Tax (expense) or benefit
	\$ (5)	\$ (4)	Net of tax
Unrealized gains and (losses) on available for sale securities:	\$ —	\$ 5	Securities gains (losses), net
	—	(2)	Tax (expense) or benefit
	\$ —	\$ 3	Net of tax
Gains and (losses) on cash flow hedges:			
Interest rate contracts	\$ 16	\$ 70	Net interest income and other financing income
	(4)	(27)	Tax (expense) or benefit
	\$ 12	\$ 43	Net of tax
Amortization of defined benefit pension plans and other post employment benefits:			
Actuarial gains (losses) and settlements	\$ (27)	\$ (39)	(2)
	(27)	(39)	Total before tax
	6	14	Tax (expense) or benefit
	\$ (21)	\$ (25)	Net of tax
Total reclassifications for the period	\$ (14)	\$ 17	Net of tax

(1) Amounts in parentheses indicate reductions to net income.

(2) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost and is included in other non-interest expense on the consolidated statements of income (see Note 9 for additional details).

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NOTE 8. EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic earnings (loss) per common share and diluted earnings (loss) per common share:

	Three Months Ended September 30 2018		Nine Months Ended September 30 2018	
	2017	2018	2017	2018
	(In millions, except per share amounts)			
Numerator:				
Income from continuing operations	\$370	\$312	\$1,162	\$921
Preferred stock dividends	(16)	(16)	(48)	(48)
Income from continuing operations available to common shareholders	354	296	1,114	873
Income (loss) from discontinued operations, net of tax	194	(1)	191	7
Net income available to common shareholders	\$548	\$295	\$1,305	\$880
Denominator:				
Weighted-average common shares outstanding—basic	1,086	1,182	1,111	1,197
Potential common shares	9	11	10	12
Weighted-average common shares outstanding—diluted	1,095	1,193	1,121	1,209
Earnings per common share from continuing operations available to common shareholders ⁽¹⁾ :				
Basic	\$0.33	\$0.25	\$1.00	\$0.73
Diluted	0.32	0.25	0.99	0.72
Earnings (loss) per common share from discontinued operations ⁽¹⁾ :				
Basic	\$0.18	\$(0.00)	\$0.17	\$0.01
Diluted	0.18	(0.00)	0.17	0.01
Earnings per common share ⁽¹⁾ :				
Basic	\$0.50	\$0.25	\$1.18	\$0.74
Diluted	0.50	0.25	1.16	0.73

(1) Certain per share amounts may not appear to reconcile due to rounding.

The effect from the assumed exercise of 5 million and 6 million stock options, restricted stock units and awards and performance stock units for the three and nine months ended September 30, 2018, respectively, was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share. The effect from the assumed exercise of 14 million and 15 million stock options, restricted stock units and awards and performance stock units for the three and nine months ended September 30, 2017, respectively, was not included in the above computations of diluted earnings per common share because such amounts would have had an antidilutive effect on earnings per common share.

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NOTE 9. PENSION AND OTHER POSTRETIREMENT BENEFITS

Regions' defined benefit pension plans cover certain employees as the pension plans are closed to new entrants. The Company also sponsors a SERP, which is a non-qualified pension plan that provides certain senior executive officers defined benefits in relation to their compensation.

Net periodic pension cost (credit) includes the following components:

	Qualified Plans		Non-qualified Plans		Total	
Three Months Ended September 30						
	2018	2017	2018	2017	2018	2017
(In millions)						
Service cost	\$ 7	\$ 8	\$ —	\$ 1	\$ 7	\$ 9
Interest cost	18	18	2	1	20	19
Expected return on plan assets	(38)	(35)	—	—	(38)	(35)
Amortization of actuarial loss	7	8	1	1	8	9
Settlement charge	—	—	—	2	—	2
Net periodic pension cost (credit)	\$ (6)	\$ (1)	\$ 3	\$ 5	\$ (3)	\$ 4
Nine Months Ended September 30						
	2018	2017	2018	2017	2018	2017
(In millions)						
Service cost	\$ 26	\$ 25	\$ 2	\$ 3	\$ 28	\$ 28
Interest cost	53	54	4	3	57	57
Expected return on plan assets	(115)	(106)	—	—	(115)	(106)
Amortization of actuarial loss	23	24	4	3	27	27

Settlement charge	—	12	—	12
Net periodic pension cost	\$(3)	\$ 10	\$ 21	\$(3)
(credit)				\$ 18

The service cost component of net periodic pension cost (credit) is recorded in salaries and employee benefits on the consolidated statements of income. Components other than service cost are recorded in other non-interest expense on the consolidated statements of income.

Regions' funding policy for the qualified plans is to contribute annually at least the amount required by IRS minimum funding standards. Regions made a contribution of \$100 million for the 2017 plan year during the first quarter of 2018. Regions also made a contribution of \$75 million for the 2017 plan year during the third quarter of 2017.

Regions also provides other postretirement benefits such as defined benefit health care plans and life insurance plans that cover certain retired employees. There was no material impact from other postretirement benefits on the consolidated financial statements for the nine months ended September 30, 2018 or 2017.

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The following tables present the notional amount and estimated fair value of derivative instruments on a gross basis as of September 30, 2018 and December 31, 2017. Beginning in the first quarter of 2018, variation margin payments made for derivatives cleared through LCH Limited are legally characterized as settlements of the derivatives.

Exchange traded derivatives cleared through LCH Limited were not offset prior to January 2018.

	September 30, 2018			December 31, 2017		
	Notional Amount	Estimated Fair Value Gain ⁽¹⁾ Loss ⁽¹⁾		Notional Amount	Estimated Fair Value Gain ⁽¹⁾ Loss ⁽¹⁾	
(In millions)						
Derivatives in fair value hedging relationships:						
Interest rate swaps	\$3,231			\$3,060	\$1	\$43
Derivatives in cash flow hedging relationships:						
Interest rate swaps	7,000			6,825	5	188
Interest rate floors ⁽²⁾	2,000	\$23		—	—	—
Total derivatives designated as hedging instruments	\$12,231	\$23		\$9,885	\$6	\$231
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$45,002	\$123	\$324	\$40,841	\$308	\$342
Interest rate options	6,873	40	30	4,598	23	15
Interest rate futures and forward commitments	20,611	7	5	20,404	6	5
Other contracts	7,189	76	71	5,721	51	48
Total derivatives not designated as hedging instruments	\$79,675	\$246	\$430	\$71,564	\$388	\$410
Total derivatives	\$91,906	\$269	\$430	\$81,449	\$394	\$641
Total gross derivative instruments, before netting		\$269	\$430		\$394	\$641
Less: Legally enforceable master netting agreements		97	97		107	107
Less: Cash collateral received/posted		60	107		34	131
Total gross derivative instruments, after netting ⁽³⁾		\$112	\$226		\$253	\$403

(1) Derivatives in a gain position are recorded as other assets and derivatives in a loss position are recorded as other liabilities on the consolidated balance sheets. There is no fair value presented for contracts that are characterized as settled daily.

(2) Estimated fair value includes premium and change in fair value of the interest rate floors.

(3) As of September 30, 2018, financial instruments posted of \$24 million were not offset in the consolidated balance sheets. As of December 31, 2017, cash collateral posted of \$257 million and financial instruments posted of \$50 million were not offset in the consolidated balance sheets.

HEDGING DERIVATIVES

Derivatives entered into to manage interest rate risk and facilitate asset/liability management strategies are designated as hedging derivatives. Derivative financial instruments that qualify in a hedging relationship are classified, based on the exposure being hedged, as either fair value hedges or cash flow hedges. See Note 1 "Summary of Significant Accounting Policies" of the Annual Report on Form 10-K for the year ended December 31, 2017, for additional information regarding accounting policies for derivatives.

FAIR VALUE HEDGES

Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment. Regions enters into interest rate swap agreements to manage interest rate exposure on the Company's fixed-rate borrowings. These agreements involve the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreements. Regions enters into interest rate swap agreements to manage interest rate exposure on certain of the Company's fixed-rate available for sale debt securities. These agreements involve the

payment of fixed-rate amounts in exchange for floating-rate interest receipts.

CASH FLOW HEDGES

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions.

Regions enters into interest rate swap and floor agreements to manage overall cash flow changes related to interest rate risk exposure on LIBOR-based loans. The agreements effectively modify the Company's exposure to interest rate risk by utilizing receive fixed/pay LIBOR interest rate swaps and interest rate floors.

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Regions recognized an unrealized after-tax gain of \$55 million and \$130 million in accumulated other comprehensive income (loss) at September 30, 2018 and 2017, respectively, related to terminated cash flow hedges of loan instruments, which will be amortized into earnings in conjunction with the recognition of interest payments through 2025. Regions recognized pre-tax income of \$10 million and \$16 million during the three months ended September 30, 2018 and 2017, respectively, and pre-tax income of \$39 million and \$53 million during the nine months ended September 30, 2018 and 2017, respectively, related to the amortization of discontinued cash flow hedges of loan instruments.

Regions expects to reclassify out of accumulated other comprehensive income (loss) and into earnings approximately \$34 million in pre-tax expense due to the receipt or payment of interest payments on all cash flow hedges within the next twelve months. Included in this amount is \$18 million in pre-tax net income related to the amortization of discontinued cash flow hedges. The maximum length of time over which Regions is hedging its exposure to the variability in future cash flows for forecasted transactions is approximately seven years as of September 30, 2018, and a portion of these hedges are forward starting.

The following tables present the effect of hedging derivative instruments on the consolidated statements of income:

	Three Months Ended September 30, 2018				
	Interest Income	Interest Expense	Non-interest expense		
	Debt securities	Loans, including fees	Deposits	Long-term borrowings	Other
	(In millions)				
Total amounts presented in the consolidated statements of income	\$155	\$ 919	\$64	\$ 84	\$ 286
Gains/(losses) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$—	\$ —	\$—	\$ (5)	\$ —
Recognized on derivatives	—	—	—	(6)	—
Recognized on hedged items	—	—	—	5	—
Net income (expense) recognized on fair value hedges	\$—	\$ —	\$—	\$ (6)	\$ —
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$—	\$ —	\$—	\$ —	\$ —
Net income (expense) recognized on cash flow hedges	\$—	\$ —	\$—	\$ —	\$ —
	Three Months Ended September 30, 2017				
	Interest Income	Interest Expense	Non-interest expense		
	Securities	Loans, including fees	Deposits	Long-term borrowings	Other
	(In millions)				
Total amounts presented in the consolidated statements of income	\$148	\$ 827	\$42	\$ 53	\$ 217
Gains/(losses) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$(1)	\$ —	\$—	\$ —	\$ —

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Recognized on derivatives	—	—	—	—	(6)
Recognized on hedged items	—	—	—	—	6	
Net income (expense) recognized on fair value hedges	\$(1)	\$ —	\$—	\$ —	\$ —
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾						
Interest rate contracts:						
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$—	\$ 17	\$—	\$ —	\$ —	
Net income (expense) recognized on cash flow hedges	\$—	\$ 17	\$—	\$ —	\$ —	

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	Nine Months Ended September 30, 2018				
	Interest Income	Interest Expense		Non-interest expense	
	Debt securities	Loans, including taxable fees	Deposits	Long-term borrowings	Other
	(In millions)				
Total amounts presented in the consolidated statements of income	\$465	\$ 2,651	\$170	\$ 229	\$ 746
Gains/(losses) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$(1)	\$ —	\$—	\$ (10)	\$ —
Recognized on derivatives	5	—	—	(47)	—
Recognized on hedged items	(5)	—	—	45	—
Net income (expense) recognized on fair value hedges	\$(1)	\$ —	\$—	\$ (12)	\$ —
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$—	\$ 16	\$—	\$ —	\$ —
Net income (expense) recognized on cash flow hedges	\$—	\$ 16	\$—	\$ —	\$ —
	Nine Months Ended September 30, 2017				
	Interest Income	Interest Expense		Non-interest expense	
	Securities	Loans, including fees	Deposits	Long-term borrowings	Other
	(In millions)				
Total amounts presented in the consolidated statements of income	\$445	\$ 2,401	\$114	\$ 153	\$ 673
Gains/(losses) on fair value hedging relationships:					
Interest rate contracts:					
Amounts related to interest settlements on derivatives	\$(3)	\$ —	\$—	\$ 2	\$ —
Recognized on derivatives	—	—	—	—	(3)
Recognized on hedged items	—	—	—	—	3
Net income (expense) recognized on fair value hedges	\$(3)	\$ —	\$—	\$ 2	\$ —
Gains/(losses) on cash flow hedging relationships: ⁽¹⁾					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income ⁽²⁾	\$—	\$ 70	\$—	\$ —	\$ —
Net income (expense) recognized on cash flow hedges	\$—	\$ 70	\$—	\$ —	\$ —

(1) See Note 7 for gain or (loss) recognized for cash flow hedges in AOCI.

(2) Pre-tax

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships.

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September 30, 2018

	Hedged Items Currently Designated		Hedged Items No Longer Designated	
	Carrying Amount of Assets (In millions)	Hedge Accounting Basis Adjustment	Carrying Amount of Assets/(Liabilities)	Hedge Accounting Basis Adjustment
Debt securities available for sale	\$83	\$ (2)	\$ 605	\$ 4
Long-term borrowings	(3,056)	7	—	—

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Table of Contents**DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS**

The Company holds a portfolio of interest rate swaps, option contracts, and futures and forward commitments that result from transactions with its commercial customers in which they manage their risks by entering into a derivative with Regions. The Company monitors and manages the net risk in this customer portfolio and enters into separate derivative contracts in order to reduce the overall exposure to pre-defined limits. For both derivatives with its end customers and derivatives Regions enters into to mitigate the risk in this portfolio, the Company is subject to market risk and the risk that the counterparty will default. The contracts in this portfolio are not designated as accounting hedges and are marked-to market through earnings (in capital markets fee income and other) and included in other assets and other liabilities, as appropriate.

Regions enters into interest rate lock commitments, which are commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. At September 30, 2018 and December 31, 2017, Regions had \$318 million and \$197 million, respectively, in total notional amount of interest rate lock commitments. Regions manages market risk on interest rate lock commitments and mortgage loans held for sale with corresponding forward sale commitments. Residential mortgage loans held for sale are recorded at fair value with changes in fair value recorded in mortgage income. Commercial mortgage loans held for sale are recorded at either the lower of cost or market or at fair value based on management's election. At September 30, 2018 and December 31, 2017, Regions had \$569 million and \$481 million, respectively, in total notional amounts related to these forward sale commitments. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to residential mortgage loans are included in mortgage income. Changes in mark-to-market from both interest rate lock commitments and corresponding forward sale commitments related to commercial mortgage loans are included in capital markets fee income and other. Regions has elected to account for residential MSRs at fair value with any changes to fair value being recorded within mortgage income. Concurrent with the election to use the fair value measurement method, Regions began using various derivative instruments, in the form of forward rate commitments, futures contracts, swaps and swaptions to mitigate the effect of changes in the fair value of its residential MSRs in its consolidated statements of income. As of September 30, 2018 and December 31, 2017, the total notional amount related to these contracts was \$5.3 billion and \$4.8 billion, respectively.

The following table presents the location and amount of gain or (loss) recognized in income on derivatives not designated as hedging instruments in the consolidated statements of income for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30		Nine Months Ended September 30	
Derivatives Not Designated as Hedging Instruments	2018	2017	2018	2017
	(In millions)			
Capital markets income:				
Interest rate swaps	\$5	\$3	\$17	\$9
Interest rate options	6	9	19	19
Interest rate futures and forward commitments	1	1	3	6
Other contracts	—	9	4	(6)
Total capital markets income	12	22	43	28
Mortgage income:				
Interest rate swaps	(9)	1	(33)	7
Interest rate options	(4)	(2)	(1)	(3)
Interest rate futures and forward commitments	4	2	—	(5)
Total mortgage income	(9)	1	(34)	(1)

\$3 \$23 \$9 \$27

Credit risk, defined as all positive exposures not collateralized with cash or other assets or reserved for, at September 30, 2018 and December 31, 2017, totaled approximately \$102 million and \$251 million, respectively. These amounts represent the net credit risk on all trading and other derivative positions held by Regions.

CREDIT DERIVATIVES

Regions has both bought and sold credit protection in the form of participations on interest rate swaps (swap participations). These swap participations, which meet the definition of credit derivatives, were entered into in the ordinary course of business to serve the credit needs of customers. Swap participations, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty if the customer fails to make payment on any amounts due to Regions upon early termination of the swap transaction and have maturities between 2018 and 2026. Swap participations, whereby Regions has sold credit protection have maturities between 2018 and 2038. For contracts where Regions sold credit protection, Regions would be required to make payment to the counterparty if the customer fails to make payment on any amounts due to the counterparty upon early termination of the swap transaction. Regions bases the current status of the prepayment/performance risk on bought and sold credit derivatives on recently issued internal risk ratings consistent with the risk management practices of unfunded commitments.

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Regions' maximum potential amount of future payments under these contracts as of September 30, 2018 was approximately \$488 million. This scenario would only occur if variable interest rates were at zero percent and all counterparties defaulted with zero recovery. The fair value of sold protection at September 30, 2018 and 2017 was immaterial. In transactions where Regions has sold credit protection, recourse to collateral associated with the original swap transaction is available to offset some or all of Regions' obligation.

Regions has bought credit protection in the form of credit default indices. These indices, which meet the definition of credit derivatives, were entered into in the ordinary course of business to economically hedge credit spread risk in commercial mortgage loans held for sale whereby the fair value option has been elected. Credit derivatives, whereby Regions has purchased credit protection, entitle Regions to receive a payment from the counterparty if losses on the underlying index exceed a certain threshold, dependent upon the tranche rating of the capital structure.

CONTINGENT FEATURES

Certain of Regions' derivative instrument contracts with broker-dealers contain credit-related termination provisions and/or credit-related provisions regarding the posting of collateral, allowing those broker-dealers to terminate the contracts in the event that Regions' and/or Regions Bank's credit ratings falls below specified ratings from certain major credit rating agencies. The aggregate fair values of all derivative instruments with any credit-risk-related contingent features that were in a liability position on September 30, 2018 and December 31, 2017, were \$66 million and \$91 million, respectively, for which Regions had posted collateral of \$66 million and \$90 million, respectively, in the normal course of business.

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NOTE 11. FAIR VALUE MEASUREMENTS

See Note 1 “Summary of Significant Accounting Policies” to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for a description of valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis. Assets and liabilities measured at fair value rarely transfer between Level 1 and Level 2 measurements. There were no such transfers during the nine month periods ended September 30, 2018 and 2017. Marketable equity securities and debt securities available for sale may be periodically transferred to or from Level 3 valuation based on management’s conclusion regarding the observability of inputs used in valuing the securities. Such transfers are accounted for as if they occur at the beginning of a reporting period.

The following table presents assets and liabilities measured at estimated fair value on a recurring basis and non-recurring basis as of September 30, 2018 and December 31, 2017:

	September 30, 2018			December 31, 2017				
	Level 1	Level 2	Level 3 ⁽¹⁾	Total Estimated Fair Value	Level 1	Level 2	Level 3 ⁽¹⁾	Total Estimated Fair Value
(In millions)								
Recurring fair value measurements								
Debt securities available for sale:								
U.S. Treasury securities	\$276	\$—	\$ —	\$ 276	\$331	\$—	\$ —	\$ 331
Federal agency securities	—	46	—	46	—	28	—	28
Mortgage-backed securities (MBS):								
Residential agency	—	16,669	—	16,669	—	17,431	—	17,431
Residential non-agency	—	—	2	2	—	—	3	3
Commercial agency	—	3,775	—	3,775	—	3,714	—	3,714
Commercial non-agency	—	773	—	773	—	788	—	788
Corporate and other debt securities	—	1,127	3	1,130	—	1,105	3	1,108
Total debt securities available for sale	\$276	\$22,390	\$ 5	\$ 22,671	\$331	\$23,066	\$ 6	\$ 23,403
Loans held for sale	\$—	\$293	\$ —	\$ 293	\$—	\$325	\$ —	\$ 325
Marketable equity securities ⁽²⁾	\$475	\$—	\$ —	\$ 475	\$414	\$—	\$ —	\$ 414
Residential mortgage servicing rights	\$—	\$—	\$ 406	\$ 406	\$—	\$—	\$ 336	\$ 336
Derivative assets:								
Interest rate swaps	\$—	\$123	\$ —	\$ 123	\$—	\$314	\$ —	\$ 314
Interest rate options	—	56	7	63	—	18	5	23
Interest rate futures and forward commitments	—	7	—	7	—	6	—	6
Other contracts	1	75	—	76	2	49	—	51
Total derivative assets	\$1	\$261	\$ 7	\$ 269	\$2	\$387	\$ 5	\$ 394
Derivative liabilities:								
Interest rate swaps	\$—	\$324	\$ —	\$ 324	\$—	\$573	\$ —	\$ 573
Interest rate options	—	30	—	30	—	15	—	15
Interest rate futures and forward commitments	—	5	—	5	—	5	—	5
Other contracts	1	69	1	71	2	46	—	48
Total derivative liabilities	\$1	\$428	\$ 1	\$ 430	\$2	\$639	\$ —	\$ 641
Non-recurring fair value measurements								
Loans held for sale	\$—	\$—	\$ 18	\$ 18	\$—	\$—	\$ 20	\$ 20
Equity investments without a readily determinable fair value ⁽³⁾	—	—	19	19	—	—	—	—

Foreclosed property and other real estate — 17 2 19 — 24 9 33

(1) All following disclosures related to Level 3 recurring and non-recurring assets do not include those deemed to be immaterial.

Marketable equity securities were reclassified from trading account securities and securities available for sale to (2) other earning assets, beginning in the first quarter of 2018, with the adoption of new accounting guidance. Prior periods have been reclassified to conform to current period presentation.

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With the adoption of new accounting guidance, effective January 1, 2018, equity investments without a readily (3) determinable fair value are required to be adjusted prospectively to estimated fair value when an observable price transaction for a same or similar investment with the same issuer occurs.

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets represent only a portion of the risk to market fluctuations in Regions' consolidated balance sheets. Further, derivatives included in Levels 2 and 3 are used by ALCO in a holistic approach to managing price fluctuation risks.

The following tables illustrate rollforwards for all material assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017, respectively. The net changes in realized gains (losses) included in earnings related to Level 3 assets and liabilities held at September 30, 2018 and 2017 are not material.

Three Months Ended September 30, 2018

	Total Realized / Unrealized Gains or Losses		Purchases	Sales	Issuance	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2018
	Opening Balance July 1, 2018	Included in Earnings								Included in Other Compre- hensive Income (Loss)
(In millions)									
Level 3 Instruments Only									
Residential mortgage servicing rights Three Months Ended September 30, 2017	\$362	(6) ⁽¹⁾	—	50	—	—	—	—	\$ 406