

REGIONS FINANCIAL CORP

Form 10-Q

November 07, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

ý 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. ý 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). ý Yes ¨ No

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.

Table of Contents

REGIONS FINANCIAL CORPORATION  
FORM 10-Q  
INDEX

	Page
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets—September 30, 2018 and December 31, 2017</u>	<u>8</u>
<u>Consolidated Statements of Income—Three and nine months ended September 30, 2018 and 2017</u>	<u>9</u>
<u>Consolidated Statements of Comprehensive Income—Three and nine months ended September 30, 2018 and 2017</u>	<u>10</u>
<u>Consolidated Statements of Changes in Stockholders' Equity—Nine months ended September 30, 2018 and 2017</u>	<u>11</u>
<u>Consolidated Statements of Cash Flows—Nine months ended September 30, 2018 and 2017</u>	<u>12</u>
<u>Notes to Consolidated Financial Statements</u>	<u>13</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>61</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>94</u>
Item 4. <u>Controls and Procedures</u>	<u>94</u>
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	<u>95</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>95</u>
Item 6. <u>Exhibits</u>	<u>97</u>
<u>Signatures</u>	<u>98</u>

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

6

---

Table of Contents

• 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](http://www.sec.gov).

Table of Contents

## 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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.

8

---

Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.				

9

---

Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	September 30 2018	September 30 2017
	(In millions)	
Net income	\$564	\$311
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of (\$1) and (\$1) tax effect, respectively)	(2)	(1)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	2	1
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period (net of (\$35) and \$16 tax effect, respectively)	(103)	23
Less: reclassification adjustments for securities gains (losses) realized in net income (net of zero and \$2 tax effect, respectively)	(1)	2
Net change in unrealized gains (losses) on securities available for sale, net of tax	(102)	21
Unrealized gains (losses) on derivative instruments designated as cash flow hedges:		
Unrealized holding gains (losses) on derivatives arising during the period (net of (\$15) and \$4 tax effect, respectively)	(44)	6
Less: reclassification adjustments for gains (losses) on derivative instruments realized in net income (net of zero and \$7 tax effect, respectively)	—	10
Net change in unrealized gains (losses) on derivative instruments, net of tax	(44)	(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)	(1)	—
Less: reclassification adjustments for amortization of actuarial loss and settlements realized in net income (net of (\$2) and (\$4) tax effect, respectively)	(6)	(7)
Net change from defined benefit pension plans and other post employment benefits, net of tax	5	7
Other comprehensive income (loss), net of tax	(139)	25
Comprehensive income	\$425	\$336
	Nine Months Ended	
	September 30 2018	September 30 2017
	(In millions)	
Net income	\$1,353	\$928
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities transferred to held to maturity:		
Unrealized losses on securities transferred to held to maturity during the period (net of zero and zero tax effect, respectively)	—	—
Less: reclassification adjustments for amortization of unrealized losses on securities transferred to held to maturity (net of (\$2) and (\$3) tax effect, respectively)	(5)	(4)
Net change in unrealized losses on securities transferred to held to maturity, net of tax	5	4

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.		



Table of ContentsREGIONS FINANCIAL CORPORATION AND SUBSIDIARIES  
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 )

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.

12

---

Table of Contents

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:

Table of Contents

	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

Table of Contents

## 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				December 31, 2017		
	Recognized in OCI <sup>(1)</sup>			Carrying Value	Not Recognized in OCI		Estimated Fair Value
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains		Gross Unrealized Losses		
(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
(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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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.

15

---

Table of Contents

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 )



Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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	)

16

---

Table of Contents

	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	
	2018	2017	2018	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 <sup>(1)</sup>	\$—	\$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.

Table of Contents

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.



Table of Contents**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
--	------------	----------------------	----------	-------

(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
--	------------	----------------------	----------	-------

(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

Table of Contents

## Nine Months Ended September 30, 2018

	Commercial	Investor Real Estate	Consumer	Total
--	------------	----------------------	----------	-------

(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
--	------------	----------------------	----------	-------

(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

20

---



Table of Contents

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.

Table of Contents

	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



Table of Contents

## 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



Table of Contents

## 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 <sup>(1)</sup>	Charge-offs and Payments Applied <sup>(2)</sup>	Book Value <sup>(3)</sup>		Impaired Loans on Non-accrual Status with Related Allowance	Related Allowance for Loan Losses	Coverage % <sup>(4)</sup>
			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 <sup>(1)</sup>	Charge-offs and Payments Applied <sup>(2)</sup>	Book Value <sup>(3)</sup>	Related Allowance for Loan Losses	Coverage % <sup>(4)</sup>
(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 %



Table of Contents

Total Impaired Loans As of September 30, 2018

Book Value<sup>(3)</sup>

	Unpaid Principal Balance <sup>(1)</sup>	Charge-offs and Payments Applied <sup>(2)</sup>	Total Impaired Loans	Impaired Loans with Related Allowance	Impaired Loans with Related Allowance	Related Allowance for Loan Losses	Coverage % <sup>(4)</sup>
(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<sup>(3)</sup>

	Unpaid Principal Balance <sup>(1)</sup>	Charge-offs and Payments Applied <sup>(2)</sup>	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 % <sup>(4)</sup>
(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 %





Table of Contents

## Accruing Impaired Loans As of December 31, 2017

	Unpaid Charge-offs Principal and Payments Balance Applied <sup>(2)</sup>		Book Value <sup>(3)</sup>		Impaired Loans on Accrual Status with Related Allowance	Impaired Loans with No Related Allowance	Related Allowance for Loan Losses	Coverage % <sup>(4)</sup>
			Total Loans Accrued on Status with No Status Related Allowance	Impaired Loans with No Status 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 <sup>(2)</sup>		Book Value <sup>(3)</sup>		Impaired Loans with No Status Related Allowance	Impaired Loans with No Status Related Allowance	Related Allowance for Loan Losses	Coverage % <sup>(4)</sup>
			Total Loans Accrued on Status with No Status Related Allowance	Impaired Loans with No Status 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	—	—	

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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

- 
- (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.

Table of Contents

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.

Table of Contents

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



Table of Contents

	Nine Months Ended September 30, 2018		
			Financial Impact of Modifications Considered TDRs
	Number of Obligations	Recorded Investment	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		
			Financial Impact of Modifications Considered TDRs
	Number of Obligations	Recorded Investment	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.

29

---



Table of Contents

	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 <sup>(1)</sup>	(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:

30

---

Table of Contents

	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 MSR 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 MSR 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 MSR 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.

31

---

Table of Contents

## 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% <sup>(1)</sup>	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

32

---

Table of Contents

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

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

	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 )

33

---



Table of Contents

	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:



Table of Contents

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>(1)</sup> (In millions)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>(1)</sup>	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

Table of Contents

	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) <sup>(1)</sup> (In millions)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <sup>(1)</sup>	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).



Table of Contents

## 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 2017	
	2018	2017	2018	2017
	(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 <sup>(1)</sup> :				
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 <sup>(1)</sup> :				
Basic	\$0.18	\$(0.00)	\$0.17	\$0.01
Diluted	0.18	(0.00 )	0.17	0.01
Earnings per common share <sup>(1)</sup> :				
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.

Table of Contents

## 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
	Qualified Plans		Non-qualified Plans		Total	
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	(61)	(5)	(106)	—	(115)	(106)
Amortization of actuarial loss	23	24	4	3	27	27

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



Table of Contents**NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

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 <sup>(1)</sup> Loss <sup>(1)</sup>		Notional Amount	Estimated Fair Value Gain <sup>(1)</sup> Loss <sup>(1)</sup>	
	(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 <sup>(2)</sup>	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 <sup>(3)</sup>		\$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.

39

---

Table of Contents

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: <sup>(1)</sup>					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income <sup>(2)</sup>	\$—	\$ —	\$—	\$ —	\$ —
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 )	\$ —	\$—	\$ —	\$ —

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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: <sup>(1)</sup>						
Interest rate contracts:						
Realized gains (losses) reclassified from AOCI into net income <sup>(2)</sup>	\$—	\$ 17	\$—	\$ —	\$ —	
Net income (expense) recognized on cash flow hedges	\$—	\$ 17	\$—	\$ —	\$ —	

40

---

Table of Contents

	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: <sup>(1)</sup>					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income <sup>(2)</sup>	\$—	\$ 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: <sup>(1)</sup>					
Interest rate contracts:					
Realized gains (losses) reclassified from AOCI into net income <sup>(2)</sup>	\$—	\$ 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.

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

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	—	—

41

---

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.



Table of Contents

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.

Table of Contents

## 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 <sup>(1)</sup>	Total Estimated Fair Value	Level 1	Level 2	Level 3 <sup>(1)</sup>	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 <sup>(2)</sup>	\$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 <sup>(3)</sup>	—	—	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.

44

---

Table of Contents

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	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2018
	Opening Balance July 1, 2018	Included in Earnings Income (Loss)							
		Other Compre- hensive							
		(In millions)							

## Level 3 Instruments Only

Residential mortgage servicing rights	\$362	(6 ) <sup>(1)</sup>	—	50	—	—	—	—	\$ 406
---------------------------------------	-------	---------------------	---	----	---	---	---	---	--------

## Three Months Ended September 30, 2017

	Total Realized / Unrealized Gains or Losses		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September 30, 2017
	Opening Balance July 1, 2017	Included in Earnings Income (Loss)							
		Other Compre- hensive							
		(In millions)							

## Level 3 Instruments Only

Residential mortgage servicing rights	\$346	(21 ) <sup>(1)</sup>	—	10	—	—	—	—	\$ 335
---------------------------------------	-------	----------------------	---	----	---	---	---	---	--------

## Nine Months Ended September 30, 2018

Opening Balance January	Total Realized / Unrealized Gains or Losses		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Closing Balance September

	2018	Included	Included						30, 2018
		in	in						
		Earnings	Other						
			Compre-						
			hensive						
			Income						
			(Loss)						
	(In millions)								
Level 3 Instruments Only									
Residential mortgage servicing rights	\$336	3 <sup>(1)</sup>	—	67	—	—	—	—	\$ 406

45

Table of Contents

	Nine Months Months Ended September 30, 2017								Closing Balance September 30, 2017
	Total Realized / Unrealized Gains or Losses								
Opening Balance January 2017	Included in Earnings	Included Other Compre- hensive Income (Loss)	Purchases	Sales	Issuance	Settlements	Transfers into Level 3	Transfers out of Level 3	
Level 3 Instruments Only									
Residential mortgage servicing rights	\$324	(45 ) <sup>(1)</sup>	—	56	—	—	—	—	\$ 335

(1) Included in mortgage income.

The following table presents the fair value adjustments related to non-recurring fair value measurements:

	Three Months Ended September 30 2018	Nine Months Ended September 30 2017	Three Months Ended September 30 2018	Nine Months Ended September 30 2017
Loans held for sale	\$(4)	\$(1)	\$(10)	\$(8)
Foreclosed property and other real estate	(3 )	(6 )	(13 )	(21 )
Equity investments without a readily determinable fair value	5	—	13	—

The following tables present detailed information regarding material assets and liabilities measured at fair value using significant unobservable inputs (Level 3) as of September 30, 2018, and December 31, 2017. The tables include the valuation techniques and the significant unobservable inputs utilized. The range of each significant unobservable input as well as the weighted-average within the range utilized at September 30, 2018, and December 31, 2017, are included. Following the tables are descriptions of the valuation techniques and the sensitivity of the techniques to changes in the significant unobservable inputs.

September 30, 2018				
Level 3				
Estimated Fair Value at September 30, 2018	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)	
(Dollars in millions)				
Recurring fair value measurements:				
Residential mortgage servicing rights <sup>(1)</sup>	\$406	Discounted cash flow	Weighted-average CPR (%) OAS (%)	1.7% - 41.0% (8.3%) 3.1% - 15.0% (8.0%)

(1) See Note 5 for additional disclosures related to assumptions used in the fair value calculation for residential mortgage servicing rights.

	December 31, 2017			
	Level 3			
	Estimated Fair Value at December 31, 2017	Valuation Technique	Unobservable Input(s)	Quantitative Range of Unobservable Inputs and (Weighted-Average)
	(Dollars in millions)			
Recurring fair value measurements:				
Residential mortgage servicing rights <sup>(1)</sup>	\$336	Discounted cash flow	Weighted-average CPR (%) OAS (%)	7.9% - 28.1% (9.9%) 8.1% - 15.0% (8.6%)

(1) See Note 7 to the consolidated financial statements of the Annual Report on Form 10-K for the year ended December 31, 2017 for additional disclosures related to assumptions used in the fair value calculation for residential mortgage servicing rights.

Table of Contents**RECURRING FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS****Residential mortgage servicing rights**

The significant unobservable inputs used in the fair value measurement of residential MSRs are OAS and CPR. This valuation requires generating cash flow projections over multiple interest rate scenarios and discounting those cash flows at a risk-adjusted rate. Additionally, the impact of prepayments and changes in the OAS are based on a variety of underlying inputs including servicing costs. Increases or decreases to the underlying cash flow inputs will have a corresponding impact on the value of the MSR asset. The net change in unrealized gains (losses) included in earnings related to MSRs held at period end are disclosed as the changes in valuation inputs or assumptions included in the MSR rollforward table in Note 5. See Note 5 for these amounts and additional disclosures related to assumptions used in the fair value calculation for MSRs.

**FAIR VALUE OPTION**

Regions has elected the fair value option for all FNMA and FHLMC eligible residential mortgage loans and certain commercial mortgage loans originated with the intent to sell. These elections allow for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting. Regions has not elected the fair value option for other loans held for sale primarily because they are not economically hedged using derivative instruments. Fair values of residential mortgage loans held for sale are based on traded market prices of similar assets where available and/or discounted cash flows at market interest rates, adjusted for securitization activities that include servicing values and market conditions, and are recorded in loans held for sale in the consolidated balance sheets.

The following table summarizes the difference between the aggregate fair value and the aggregate unpaid principal balance for mortgage loans held for sale measured at fair value:

	September 30, 2018			December 31, 2017		
	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal	Aggregate Fair Value	Aggregate Unpaid Principal	Aggregate Fair Value Less Aggregate Unpaid Principal
	(In millions)					
Mortgage loans held for sale, at fair value	\$293	\$ 286	\$ 7	\$325	\$ 314	\$ 11

Interest income on mortgage loans held for sale is recognized based on contractual rates and is reflected in interest income on loans held for sale in the consolidated statements of income. The following table details net gains and losses resulting from changes in fair value of these loans, which were recorded in mortgage income in the consolidated statements of income during the three and nine months ended September 30, 2018 and 2017. These changes in fair value are mostly offset by economic hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

	Net gains (losses) resulting from changes in fair value			
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	(In millions)			
Mortgage loans held for sale, at fair value	\$(4)	\$(3)	\$(4)	\$ 5





Table of Contents

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of September 30, 2018 are as follows:

	September 30, 2018				
	Carrying Amount	Estimated Fair Value <sup>(1)</sup>	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	\$3,495	\$3,495	\$3,495	\$ —	—
Debt securities held to maturity	1,524	1,472	—	1,472	—
Debt securities available for sale	22,671	22,671	276	22,390	5
Loans held for sale	331	331	—	309	22
Loans (excluding leases), net of unearned income and allowance for loan losses <sup>(2)(3)</sup>	79,940	78,722	—	—	78,722
Other earning assets <sup>(4)</sup>	1,408	1,408	475	933	—
Derivative assets	269	269	1	261	7
Financial liabilities:					
Derivative liabilities	430	430	1	428	1
Deposits	93,255	93,267	—	93,267	—
Short-term borrowings	3,250	3,250	—	3,250	—
Long-term borrowings	11,178	11,434	—	10,618	816
Loan commitments and letters of credit	75	432	—	—	432

Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In (1) estimating fair value, the Company relies on a robust, cross-functional corporate governance program to make adjustments for estimated changes in interest rates, market liquidity and credit spreads in the periods they are deemed to have occurred.

The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor.

Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate.

(2) In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount on the loan portfolio's net carrying amount at September 30, 2018 was \$1.2 billion or 1.5 percent.

(3) Excluded from this table is the capital lease carrying amount of \$1.0 billion at September 30, 2018.

(4) Excluded from this table is the operating lease carrying amount of \$393 million at September 30, 2018.

Table of Contents

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company's financial instruments as of December 31, 2017 are as follows:

	December 31, 2017				
	Carrying Amount	Estimated Fair Value <sup>(1)</sup>	Level 1	Level 2	Level 3
	(In millions)				
Financial assets:					
Cash and cash equivalents	\$3,981	\$3,981	\$3,981	\$ —	—
Debt securities held to maturity	1,658	1,667	—	1,667	—
Debt securities available for sale	23,403	23,403	331	23,066	6
Loans held for sale	348	348	—	328	20
Loans (excluding leases), net of unearned income and allowance for loan losses <sup>(2)(3)</sup>	77,942	76,871	—	—	76,871
Other earning assets <sup>(4)</sup>	1,402	1,402	414	988	—
Derivative assets	394	394	2	387	5
Financial liabilities:					
Derivative liabilities	641	641	2	639	—
Deposits	96,889	96,927	—	96,927	—
Short-term borrowings	500	500	—	500	—
Long-term borrowings	8,132	8,517	—	7,757	760
Loan commitments and letters of credit	79	540	—	—	540

Estimated fair values are consistent with an exit price concept. The assumptions used to estimate the fair values are intended to approximate those that a market participant would use in a hypothetical orderly transaction. In (1) estimating fair value, the Company relies on a robust, cross-functional corporate governance program to make adjustments for estimated changes in interest rates, market liquidity and credit spreads in the periods they are deemed to have occurred.

The estimated fair value of portfolio loans assumes sale of the loans to a third-party financial investor.

Accordingly, the value to the Company if the loans were held to maturity is not reflected in the fair value estimate.

(2) In the current whole loan market, financial investors are generally requiring a higher rate of return than the return inherent in loans if held to maturity. The fair value discount on the loan portfolio's net carrying amount at December 31, 2017 was \$1.1 billion or 1.4 percent.

(3) Excluded from this table is the capital lease carrying amount of \$1.1 billion at December 31, 2017.

(4) Excluded from this table is the operating lease carrying amount of \$489 million at December 31, 2017.

**NOTE 12. BUSINESS SEGMENT INFORMATION**

Each of Regions' reportable segments is a strategic business unit that serves specific needs of Regions' customers based on the products and services provided. The segments are based on the manner in which management views the financial performance of the business. The Company has three reportable segments: Corporate Bank, Consumer Bank, and Wealth Management, with the remainder split between Discontinued Operations and Other. Additional information about the Company's reportable segments is included in Regions' Annual Report on Form 10-K for the year ended December 31, 2017.

The application and development of management reporting methodologies is a dynamic process and is subject to periodic enhancements. As these enhancements are made, financial results presented by each reportable segment may be periodically revised.

Discontinued operations includes all brokerage and investment activities associated with the sale of Morgan Keegan which closed on April 2, 2012, as well as the sale of Regions Insurance Group, Inc. and related affiliates, which closed

on July 2, 2018. See Note 2 "Discontinued Operations" for related discussion.

The following tables present financial information for each reportable segment for the period indicated.

49

---

Table of Contents

	Three Months Ended September 30, 2018						
	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	\$348	\$574	\$49	\$(29)	\$942	\$1	\$943
Provision (credit) for loan losses	54	79	4	(53)	84	—	84
Non-interest income	137	287	80	15	519	280	799
Non-interest expense	223	527	84	88	922	7	929
Income (loss) before income taxes	208	255	41	(49)	455	274	729
Income tax expense (benefit)	52	64	10	(41)	85	80	165
Net income (loss)	\$156	\$191	\$31	\$(8)	\$370	\$194	\$564
Average assets	\$51,694	\$35,142	\$2,257	\$34,433	\$123,526	\$—	\$123,526
	Three Months Ended September 30, 2017						
	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	\$362	\$543	\$49	\$(57)	\$897	\$1	\$898
Provision (credit) for loan losses	66	75	5	(70)	76	—	76
Non-interest income	121	275	76	10	482	34	516
Non-interest expense	212	511	80	50	853	35	888
Income (loss) before income taxes	205	232	40	(27)	450	—	450
Income tax expense (benefit)	78	88	16	(44)	138	1	139
Net income (loss)	\$127	\$144	\$24	\$17	\$312	\$(1)	\$311
Average assets	\$51,304	\$34,929	\$2,438	\$34,607	\$123,278	\$155	\$123,433
	Nine Months Ended September 30, 2018						
	Corporate Bank	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
	(In millions)						
Net interest income and other financing income (loss)	\$1,027	\$1,682	\$147	\$(79)	\$2,777	\$1	\$2,778
Provision (credit) for loan losses	162	231	13	(272)	134	—	134
Non-interest income	417	852	236	33	1,538	349	1,887
Non-interest expense	681	1,574	260	202	2,717	79	2,796
Income (loss) before income taxes	601	729	110	24	1,464	271	1,735
Income tax expense (benefit)	150	182	27	(57)	302	80	382
Net income (loss)	\$451	\$547	\$83	\$81	\$1,162	\$191	\$1,353
Average assets	\$51,271	\$34,985	\$2,311	\$34,651	\$123,218	\$109	\$123,327

Table of Contents

	Nine Months Ended September 30, 2017						
	Corporate Bank (In millions)	Consumer Bank	Wealth Management	Other	Continuing Operations	Discontinued Operations	Consolidated
Net interest income and other financing income (loss)	\$1,062	\$ 1,593	\$ 142	\$(159 )	\$2,638	\$ 1	\$ 2,639
Provision (credit) for loan losses	199	220	16	(241 )	194	—	194
Non-interest income	370	837	224	15	1,446	106	1,552
Non-interest expense	645	1,542	247	137	2,571	94	2,665
Income (loss) before income taxes	588	668	103	(40 )	1,319	13	1,332
Income tax expense (benefit)	223	254	42	(121 )	398	6	404
Net income (loss)	\$365	\$ 414	\$ 61	\$81	\$921	\$ 7	\$ 928
Average assets	\$51,896	\$ 34,922	\$ 2,479	\$34,569	\$ 123,866	\$ 158	\$ 124,024

## NOTE 13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

## COMMERCIAL COMMITMENTS

Regions issues off-balance sheet financial instruments in connection with lending activities. The credit risk associated with these instruments is essentially the same as that involved in extending loans to customers and is subject to Regions' normal credit approval policies and procedures. Regions measures inherent risk associated with these instruments by recording a reserve for unfunded commitments based on an assessment of the likelihood that the guarantee will be funded and the creditworthiness of the customer or counterparty. Collateral is obtained based on management's assessment of the creditworthiness of the customer.

Credit risk associated with these instruments is represented by the contractual amounts indicated in the following table:

	September 30, 2018	December 31, 2017
	(In millions)	
Unused commitments to extend credit	\$49,109	\$ 45,705
Standby letters of credit	1,448	1,348
Commercial letters of credit	92	76
Liabilities associated with standby letters of credit	26	26
Assets associated with standby letters of credit	27	28
Reserve for unfunded credit commitments	50	53

Unused commitments to extend credit—To accommodate the financial needs of its customers, Regions makes commitments under various terms to lend funds to consumers, businesses and other entities. These commitments include (among others) credit card and other revolving credit agreements, term loan commitments and short-term borrowing agreements. Many of these loan commitments have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements.

Standby letters of credit—Standby letters of credit are also issued to customers, which commit Regions to make payments on behalf of customers if certain specified future events occur. Regions has recourse against the customer for any amount required to be paid to a third party under a standby letter of credit. Historically, a large percentage of standby letters of credit expire without being funded. The contractual amount of standby letters of credit represents the maximum potential amount of future payments Regions could be required to make and represents Regions' maximum credit risk.

Commercial letters of credit—Commercial letters of credit are issued to facilitate foreign or domestic trade transactions for customers. As a general rule, drafts will be drawn when the goods underlying the transaction are in transit.

## LEGAL CONTINGENCIES

Regions and its subsidiaries are subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. Regions evaluates these contingencies based on information currently available, including advice of counsel. Regions establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted

51

---

Table of Contents

as circumstances change. Some of Regions' exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates of possible loss contingencies, however, Regions does not take into account the availability of insurance coverage. To the extent that Regions has an insurance recovery, the proceeds are recorded in the period the recovery is received.

In addition, Regions has agreed to indemnify Raymond James for all legal matters resulting from pre-closing activities in conjunction with the sale of Morgan Keegan and recorded an indemnification obligation at fair value in the second quarter of 2012.

When it is practicable, Regions estimates possible loss contingencies, whether or not there is an accrued probable loss. When Regions is able to estimate such possible losses, and when it is reasonably possible Regions could incur losses in excess of amounts accrued, Regions discloses the aggregate estimation of such possible losses. Regions currently estimates that it is reasonably possible that it may experience losses in excess of what Regions has accrued in an aggregate amount of up to approximately \$20 million as of September 30, 2018, with it also being reasonably possible that Regions could incur no losses in excess of amounts accrued. However, as available information changes, the matters for which Regions is able to estimate, as well as the estimates themselves, will be adjusted accordingly. The reasonably possible estimate includes legal contingencies that are subject to the indemnification agreement with Raymond James.

Assessments of litigation and claims exposure are difficult because they involve inherently unpredictable factors including, but not limited to, the following: whether the proceeding is in the early stages; whether damages are unspecified, unsupported, or uncertain; whether there is a potential for punitive or other pecuniary damages; whether the matter involves legal uncertainties, including novel issues of law; whether the matter involves multiple parties and/or jurisdictions; whether discovery has begun or is not complete; whether meaningful settlement discussions have commenced; and whether the lawsuit involves class allegations. Assessments of class action litigation, which is generally more complex than other types of litigation, are particularly difficult, especially in the early stages of the proceeding when it is not known whether a class will be certified or how a potential class, if certified, will be defined. As a result, Regions may be unable to estimate reasonably possible losses with respect to some of the matters disclosed below, and the aggregated estimated amount discussed above may not include an estimate for every matter disclosed below.

In July 2006, Morgan Keegan and a former Morgan Keegan analyst were named as defendants in a lawsuit filed by a Canadian insurance and financial services company and its American subsidiary in the Circuit Court of Morris County, New Jersey. Plaintiffs alleged civil claims under the RICO Act and claims for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs alleged that defendants engaged in a multi-year conspiracy to publish and disseminate false and defamatory information about plaintiffs to improperly drive down plaintiffs' stock price, so that others could profit from short positions. Plaintiffs alleged that defendants' actions damaged their reputations and harmed their business relationships. Plaintiffs sought monetary damages for a number of categories of alleged damages, including lost insurance business, lost financings and increased financing costs, increased audit fees and directors and officers insurance premiums and lost acquisitions. In September 2012, the trial court dismissed the case with prejudice. Plaintiffs filed an appeal, and in April 2017, the appellate court affirmed the dismissal of the plaintiffs' claims under the RICO Act. The appellate court reversed the trial court's dismissal of the commercial disparagement and tortious interference claims and remanded those claims but limited the plaintiffs' damages. Plaintiffs filed an appeal with the Supreme Court of New Jersey in May 2017, and in October 2017, that court denied the plaintiffs' petition and remanded the case to the trial court. On September 4, 2018, the parties settled all remaining claims. The settlement did not have a material effect on Regions' financial position, results of operations or cash flows as Regions had previously accrued liabilities to substantially cover this matter. This matter was subject to the indemnification agreement with Raymond James.

Regions is involved in formal and informal information-gathering requests, investigations, reviews, examinations and proceedings by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding Regions' business, Regions' business practices and policies, and the conduct of persons with whom Regions



does business. Additional inquiries will arise from time to time. In connection with those inquiries, Regions receives document requests, subpoenas and other requests for information. The inquiries, including those described below, could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on Regions' consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in our business practices, and could result in additional expenses and collateral costs, including reputational damage.

Regions is cooperating with an investigation by the United States Attorney's Office for the Eastern District of New York pertaining to Regions' banking relationship with a former customer and accounts maintained by related entities and individuals affiliated with the customer who may be involved in criminal activity, as well as related aspects of Regions' Anti-Money Laundering and Bank Secrecy Act compliance program.

While the final outcome of litigation and claims exposures or of any inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and inquiries will not have a material effect on Regions' business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any of the matters discussed above could be

Table of Contents

material to Regions' business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

**GUARANTEES**

**INDEMNIFICATION OBLIGATION**

As discussed in Note 2, on April 2, 2012 ("Closing Date"), Regions closed the sale of Morgan Keegan and related affiliates to Raymond James. In connection with the sale, Regions agreed to indemnify Raymond James for all legal matters related to pre-closing activities, including matters filed subsequent to the Closing Date that relate to actions that occurred prior to closing. Losses under the indemnification include legal and other expenses, such as costs for judgments, settlements and awards associated with the defense and resolution of the indemnified matters. The maximum potential amount of future payments that Regions could be required to make under the indemnification is indeterminable due to the indefinite term of some of the obligations. As of September 30, 2018, the carrying value and fair value of the indemnification obligation were immaterial.

**FANNIE MAE DUS LOSS SHARE GUARANTEE**

Regions is a DUS lender. The DUS program provides liquidity to the multi-family housing market. Regions services loans sold to Fannie Mae and is required to provide a loss share guarantee equal to one-third of the majority of its DUS servicing portfolio. At September 30, 2018 and December 31, 2017, the Company's DUS servicing portfolio totaled approximately \$3.2 billion and \$2.9 billion, respectively. Regions' maximum quantifiable contingent liability related to its loss share guarantee was approximately \$1.0 billion and \$923 million at September 30, 2018 and December 31, 2017, respectively. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. Therefore, the maximum quantifiable contingent liability is not representative of the actual loss the Company would be expected to incur. The estimated fair value of the associated loss share guarantee recorded as a liability on the Company's consolidated balance sheets was approximately \$4 million at both September 30, 2018 and December 31, 2017. Refer to Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017, for additional information.

Table of Contents

## NOTE 14. REVENUE RECOGNITION

The Company records revenue when control of the promised products or services is transferred to the customer, in an amount that reflects the consideration Regions expects to be entitled to receive in exchange for those products or services. 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 descriptions of the accounting and reporting policies related to revenue recognition.

The following tables present total non-interest income disaggregated by major product category for each reportable segment for the period indicated.

	Three Months Ended September 30, 2018						
	Corp Bank	Consumer Bank	Wealth Management	Other Segment Revenue	Other <sup>(1)</sup>	Continuing Operations	Discontinued Operations
	(In millions)						
Service charges on deposit accounts	\$36	\$ 142	\$ 1	\$ (2 )	\$ 2	\$ 179	\$ —
Card and ATM fees	13	102	—	1	(5 )	111	—
Investment management and trust fee income	—	—	59	—	—	59	—
Capital markets income	15	—	—	—	30	45	—
Mortgage income	—	—	—	—	32	32	—
Bank-owned life insurance	—	—	—	—	18	18	—
Commercial credit fee income	—	—	—	—	18	18	—
Investment services fee income	—	—	18	—	—	18	—
Securities gains, net	—	—	—	—	—	—	(1 )
Market value adjustments on employee benefit assets	—	—	—	—	7	7	—
Insurance commissions and fees	—	—	1	1	—	2	—
Gain on sale of business <sup>(1)</sup>	—	—	—	—	—	—	281
Other miscellaneous income	4	11	1	(1 )	15	30	—
	\$68	\$ 255	\$ 80	\$ (1 )	\$ 117	\$ 519	\$ 280
	Three Months Ended September 30, 2017 <sup>(2)</sup>						
	Corp Bank	Consumer Bank	Wealth Management	Other Segment Revenue	Other <sup>(1)</sup>	Continuing Operations	Discontinued Operations
	(In millions)						
Service charges on deposit accounts	\$36	\$ 136	\$ 1	\$ (1 )	\$ 3	\$ 175	\$ —
Card and ATM fees	11	94	—	—	(2 )	103	—
Investment management and trust fee income	—	—	58	—	—	58	—
Capital markets income	10	—	—	—	25	35	—
Mortgage income	—	—	—	—	32	32	—
Bank-owned life insurance	—	—	—	—	20	20	—
Commercial credit fee income	—	—	—	—	17	17	—
Investment services fee income	—	—	15	—	—	15	—
Securities gains, net	—	—	—	—	8	8	—
Market value adjustments on employee benefit assets	—	—	—	—	3	3	—
Insurance commissions and fees	—	—	—	—	—	—	33
Other miscellaneous income	4	12	1	—	(1 )	16	1
	\$61	\$ 242	\$ 75	\$ (1 )	\$ 105	\$ 482	\$ 34



Table of Contents

	Nine Months Ended September 30, 2018						
	Corporate Bank	Consumer Bank	Wealth Management	Other Segment Revenue	Other <sup>(1)</sup>	Continuing Operations	Discontinued Operations
	(In millions)						
Service charges on deposit accounts	\$109	\$ 408	\$ 3	\$ (1 )	\$ 6	\$ 525	\$ —
Card and ATM fees	39	300	—	1	(13 )	327	—
Investment management and trust fee income	—	—	175	—	—	175	—
Capital markets income	59	—	—	—	93	152	—
Mortgage income	—	—	—	—	107	107	—
Bank-owned life insurance	—	—	—	—	53	53	—
Commercial credit fee income	—	—	—	—	52	52	—
Investment services fee income	—	—	54	—	—	54	—
Securities gains, net	—	—	—	—	1	1	(1 )
Market value adjustments on employee benefit assets	—	—	—	—	4	4	—
Insurance commissions and fees	—	—	1	2	—	3	69
Gain on sale of business <sup>(1)</sup>	—	—	—	—	—	—	281
Other miscellaneous income	13	32	3	(1 )	38	85	—
	\$220	\$ 740	\$ 236	\$ 1	\$ 341	\$ 1,538	\$ 349
	Nine Months Ended September 30, 2017 <sup>(2)</sup>						
	Corporate Bank	Consumer Bank	Wealth Management	Other Segment Revenue	Other <sup>(1)</sup>	Continuing Operations	Discontinued Operations
	(In millions)						
Service charges on deposit accounts	\$107	\$ 395	\$ 2	\$ 1	\$ 7	\$ 512	\$ —
Card and ATM fees	35	284	—	—	(8 )	311	—
Investment management and trust fee income	—	—	171	—	—	171	—
Capital markets income	30	—	—	—	75	105	—
Mortgage income	—	—	—	—	113	113	—
Bank-owned life insurance	—	—	—	—	61	61	—
Commercial credit fee income	—	—	—	—	53	53	—
Investment services fee income	—	—	46	—	—	46	—
Securities gains, net	—	—	—	—	9	9	—
Market value adjustments on employee benefit assets	—	—	—	—	10	10	—
Insurance commissions and fees	—	—	—	2	—	2	104
Other miscellaneous income	10	34	3	—	6	53	2
	\$182	\$ 713	\$ 222	\$ 3	\$ 326	\$ 1,446	\$ 106

(1) This revenue is not impacted by the new accounting guidance and continues to be recognized when earned in accordance with the Company's existing revenue recognition policy.

(2) Prior period amounts have not been adjusted under the modified retrospective method.

Regions elected the practical expedient related to contract costs and will continue to expense sales commissions and any related contract costs when incurred because the amortization period would have been one year or less.

Regions also elected the practical expedient related to remaining performance obligations and therefore did not disclose the value of unsatisfied performance obligations for 1) contracts with an original expected length of one year or less and 2) contracts for which revenue is recognized at the amount to which Regions has the right to invoice for

services performed.

55

---

Table of Contents

## NOTE 15. RECENT ACCOUNTING PRONOUNCEMENTS

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Adopted (or partially adopted) in 2018			
ASU 2014-09, Revenue from Contracts with Customers			
ASU 2015-14, Deferral of the Effective Date			Regions adopted the new revenue recognition standard on January 1, 2018 using the modified retrospective method. The adoption of this guidance did not have a material impact. For the nine months ended September 30, 2018, approximately \$1.3 billion of non-interest income is within the scope of the new revenue recognition standard and includes service charges on deposit accounts, card and ATM fees, investment management and trust fee income, capital markets fee income, investment services fee income and other components within non-interest income. Income streams that are out of scope of the new standard include interest income, mortgage income, securities gains (losses), bank-owned life insurance and certain other components within non-interest income. Regions also developed additional quantitative and qualitative disclosures required by the new revenue recognition standard. See Note 14.
ASU 2016-08, Principal versus Agent Considerations	This ASU supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry topics of the Codification. The core principle of the ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU may be adopted either retrospectively or on a modified retrospective basis.	January 1, 2018	
ASU 2016-10, Identifying Performance Obligations and Licensing			
ASU 2016-12, Narrow-Scope Improvements and Practical Expedience			
ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers			
ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities	This ASU amends ASC Topic 825, Financial Instruments-Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other minor amendments applicable to Regions, the main provisions require investments in equity securities to be measured at fair value with changes in fair value recognized	January 1, 2018	The adoption of this guidance resulted in trading account assets and equity securities available for sale being reclassified to other earning assets. The adoption of this guidance did not have a material impact. See Note 3.
ASU 2018-03, Technical Corrections and			

<p>Improvements to Financial Instruments</p> <p>ASU 2018-04, Debt Securities and Regulated Operations</p> <p>ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments</p>	<p>through net income unless they qualify for a practicability exception (excludes investments accounted for under the equity method of accounting or those that result in consolidation of the investee). Except for disclosure requirements that have been adopted prospectively, the ASU must be adopted on a modified retrospective basis. This ASU amends Topic 230, Statement of Cash Flows, and provides clarification with respect to classification within the statement of cash flows where current guidance is unclear or silent. The ASU must be adopted retrospectively.</p>	<p>January 1, 2018</p> <p>The adoption of this guidance did not have a material impact.</p>
<p>ASU 2017-01, Clarifying the Definition of a Business</p>	<p>This ASU amends Topic 805, Business Combinations, and provides additional accounting guidance to better determine when a set of assets and activities is a business. The ASU must be adopted prospectively.</p>	<p>January 1, 2018</p> <p>The adoption of this guidance did not have a material impact.</p>
<p>ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets</p>	<p>This ASU amends Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets, to clarify the scope and to add guidance for partial sales of nonfinancial assets. The new standard adds a definition for in-substance nonfinancial assets and clarifies that nonfinancial assets within a legal entity are within the scope of ASC 606. This ASU may be adopted either retrospectively or on a modified retrospective basis.</p>	<p>January 1, 2018</p> <p>Regions adopted the guidance using the modified retrospective method. The adoption of this guidance did not have a material impact.</p>



Table of Contents

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Adopted (or partially adopted) in 2018 (continued)			
ASU 2017-07, Compensation-Retirement Benefits	This ASU amends Topic 715, Retirement Benefits, and provides more prescriptive guidance around the presentation of net periodic pension and postretirement benefit cost in the income statement. The amendment requires that the service cost component be disaggregated from other components of net periodic benefit cost in the income statement. The ASU must be adopted retrospectively.	January 1, 2018	Regions recorded the service cost component of net periodic pension and postretirement benefit cost in salaries and employee benefits in the income statement. The other components of net periodic pension and postretirement benefit cost were recorded in other non-interest expense. The third quarter and first nine months of 2017 have been revised to conform to this presentation. The adoption of this guidance did not have a material impact. See Note 9.
ASU 2017-09, Stock Compensation: Scope of Modification Accounting	This ASU amends Topic 718, Compensation-Stock Compensation, and clarifies when modification accounting should be applied to changes in terms or conditions of share-based payment awards. The amendments narrow the scope of modification accounting by clarifying that modification accounting should be applied to awards if the change affects the fair value, vesting conditions, or classification of the award. The amendments do not impact current disclosure requirements for modifications, regardless of whether modification accounting is required under the new guidance. The ASU must be adopted prospectively to modifications that occur on or after the adoption date.	January 1, 2018	The adoption of this guidance did not have a material impact.
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	This ASU amends ASC 815, Derivatives and Hedging to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the	January 1, 2019 Early adoption is permitted.	Regions elected to adopt this ASU for financial reporting as of January 1, 2018. The adoption of this guidance did not have a material impact. See

application of hedge accounting by preparers. Except for disclosure requirements that have been adopted prospectively, the ASU must be adopted on a modified retrospective basis.

This ASU amends SEC guidance in the Codification related to income taxes to reflect the guidance in SEC Staff Accounting Bulletin 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. The staff believes that to the extent a company can reasonably estimate the impact of the Tax Cuts and Jobs Act, such items should be reported in the first reporting period in which the Company is able to determine the reasonable estimate.

Note 10.

ASU 2018-05, Income Taxes

Adopted upon issuance.

Regions does not expect the adoption of this guidance to have a material impact.

Table of Contents

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Not Yet Adopted			
ASU 2016-02, Leases	This ASU creates ASC Topic 842, Leases, and supersedes Topic 840, Leases. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year. There are not significant changes to lessor accounting; however, there were certain improvements made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. This guidance expands both quantitative and qualitative required disclosures. This ASU should be adopted on a modified retrospective basis.	January 1, 2019	Regions has established a leasing standard implementation team staffed by designated personnel from the Corporate Controller's group, Corporate Real Estate and other business and finance management to plan and execute the adoption of the new leasing standard.
ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 84		Early adoption is permitted.	The implementation team has substantially completed the identification of Regions' leases that will need to be measured and reported as a right-of-use asset and corresponding liability for future rental payments. The implementation team is currently working with a lease administration vendor to set up and test the accounting for the lease contracts on the lease administration system. Based on preliminary estimates that are subject to change, Regions has a range of approximately \$400-\$600 million of future lease obligations that would be measured and recognized when the new guidance is adopted (refer to Note 24 to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017). While this amount represents a large majority of the leases that are within the scope of the new leasing standard, the implementation team will continue reviewing service contracts up through the effective date and may identify additional leases embedded in those arrangements that will be within the scope of the new standard.
ASU2018-10, Narrow Amendments to Topic 842			
ASU 2018-11, Targeted Improvements to Topic 842			
			Between now and January 1, 2019, Regions will likely have changes to the lease portfolio as the Company continues to evaluate and execute branch and occupancy optimization initiatives. The evaluation of the impact of the standard will be adjusted based on new leases that are executed, leases that are terminated prior to the effective date, and changes to key assumptions or expectations such as renewals and extensions, and the interest rates to be used to discount the future lease obligations.
			Regions expects to adopt the guidance using the optional transition method, which allows for a

modified retrospective method of adoption with a cumulative effect adjustment to retained earnings without restating comparable periods. Regions also plans to elect the relief package of practical expedients for which there is no requirement to reassess existence of leases, their classification, and initial direct costs as well as an exemption for short-term leases with a term of less than one year, whereby Regions does not recognize a lease liability or right-of-use asset on the balance sheet but instead recognizes lease payments as an expense over the lease term as appropriate.

While there will be some changes to income statement classification, the implementation team does not expect the adoption of the standard to have a material impact to pre-tax income. Regions does not anticipate early adoption of the new standard.

Table of Contents

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Not Yet Adopted			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	<p>This ASU amends Topic 326, Financial Instruments- Credit Losses to replace the current incurred loss accounting model with a current expected credit loss approach (CECL) for financial instruments measured at amortized cost and other commitments to extend credit. The amendments require entities to consider all available relevant information when estimating current expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is to reflect the portion of the amortized cost basis that the entity does not expect to collect. The amendments also eliminate the current accounting model for purchased credit impaired loans and debt securities. Additional quantitative and qualitative disclosures are required upon adoption.</p> <p>While the CECL model does not apply to available for sale debt securities, the ASU does require entities to record an allowance when recognizing credit losses for available for sale securities, rather than reduce the amortized cost of the securities by direct write-offs.</p> <p>The ASU should be adopted on a modified retrospective basis. Entities that have loans accounted for under ASC 310-30 at the time of adoption should prospectively apply the guidance in this amendment for purchase credit deteriorated assets.</p>	January 1, 2020	<p>Regions' cross-functional implementation team, which is co-led by Finance and Risk Management, has developed a project plan that results in running a CECL parallel production during 2019 and the adoption of the standard in the first quarter of 2020. Key project implementation activities for 2018 focus on model enhancements, execution and implementation, continued challenge of model outputs, development of the qualitative framework, establishing processes and controls, drafting policies and disclosures, data resolution, and documentation. Regions is currently on track with the project implementation plan.</p> <p>Regions provides updates to senior leadership and to the Audit Committee and Risk Committee of the Board of Directors. These communications provide an update on the status of the implementation project plan, results of initial modeled impacts, and risks identified.</p> <p>Adoption of the standard may result in an overall material increase in the allowance for credit losses given the change from accounting for losses inherent in the loan portfolio to accounting for losses over the remaining contractual life of the portfolio. However, the impact at adoption will be influenced by the portfolios' composition and quality at the adoption date as well as economic conditions and forecasts at that time. Based on initial modeling, loan portfolios expected to generate the</p>

			majority of the increase include longer-dated loans such as residential first mortgages, home equity lending products and indirect-other products. However, there could be increases or decreases in the allowance in certain other loan portfolios at adoption.
			Regions expects no material allowance on held to maturity securities since the majority of this portfolio consists of agency-backed securities that inherently have an immaterial risk of loss. Additionally, Regions expects no material allowance impact to available for sale securities.
ASU 2017-04, Simplifying the Test for Goodwill Impairment	This ASU amends Topic 350, Intangibles-Goodwill and Other, and eliminates Step 2 from the goodwill impairment test.	January 1, 2020 Early adoption is permitted.	Regions believes the adoption of this guidance will not have a material impact. Regions does not plan to early adopt.
ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs	This ASU amends Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs, to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. Current guidance generally requires entities to amortize a premium as a yield adjustment over the contractual life of the instrument. Shortening the amortization period is generally expected to more closely align the recognition of interest income with expectations incorporated into the pricing of the underlying securities. The amendments do not affect the accounting treatment of discounts. This ASU should be adopted on a modified retrospective basis.	January 1, 2019 Early adoption permitted, including in an interim period.	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2018-07, Compensation - Stock Compensation	This ASU amends and expands the scope of Topic 718, Compensation-Stock Compensation, to include share-based payment transactions for acquiring goods and services for non-employees. Under this guidance, the accounting for share-based payments to non-employees and employees will be substantially aligned. The measurement of equity-classified non-employee awards will now be fixed at the grant date.	January 1, 2019 Early adoption is permitted.	Regions is evaluating the impact upon adoption; however, the impact is not expected to be material.
ASU 2018-09, Codification Improvements	The FASB issued this ASU to clarify, improve, and correct errors in the Codification. The ASU covers nine amendments, which affect a wide variety of Topics including business combinations,	January 1, 2019	Regions believes the adoption of this guidance will not have a material impact.

debt, derivatives and hedging, and defined contribution pension plans. Some amendments do not require transition guidance and are effective upon issuance, while others will be applicable for Regions starting in 2019. However, all amendments are expected to have an immaterial impact to Regions.

Early adoption is permitted.

Table of Contents

Standard	Description	Required Date of Adoption	Effect on Regions' financial statements or other significant matters
Standards Not Yet Adopted			
ASU 2018-13, Fair Value Measurement	This ASU amends the disclosure requirements of Topic 820, Fair Value Measurement, to remove disclosure of transfers between Level 1 and Level 2 of the fair value hierarchy and to include disclosure of the range and weighted average used in Level 3 fair value measurements, among other amendments. The ASU applies to all entities that are required to provide disclosures about recurring or non-recurring fair value measurements. Amendments should be applied retrospectively to all periods presented, except for certain amendments, which should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption.	January 1, 2020 Early adoption is permitted.	Regions believes the adoption of this guidance will not have a material impact. Regions is evaluating whether to early adopt.
ASU 2018-14, Compensation - Retirement Benefits	This ASU amends the disclosure requirements in Topic 715, Retirement Benefits. The ASU applies to all employer entities that sponsor defined benefit pension or other post-retirement plans. Applicable disclosure changes include: the removal of amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next year; the removal of the effects of a one-percentage point change in assumed health care cost trend rates; and the addition of an explanation of reasons for significant gains and losses related to changes in the benefit obligation for the period.	January 1, 2021 Early adoption is permitted.	Regions believes the adoption of this guidance will not have a material impact. Regions is evaluating whether to early adopt.
ASU 2018-15, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	This ASU amends Topic 350-40, Intangibles-Goodwill and Other-Internal-Use Software, regarding a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e. a service contract. Customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The amendments also prescribe the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and require additional quantitative and qualitative disclosures.	January 1, 2020 Early adoption is permitted.	Regions believes the adoption of this guidance will not have a material impact. Regions does not plan to early adopt.



Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The following discussion and analysis is part of Regions Financial Corporation’s (“Regions” or the “Company”) Quarterly Report on Form 10-Q filed with the SEC and updates Regions’ Annual Report on Form 10-K for the year ended December 31, 2017, which was previously filed with the SEC. This financial information is presented to aid in understanding Regions’ financial position and results of operations and should be read together with the financial information contained in the Form 10-K. Effective January 1, 2018, the Company adopted new accounting guidance and certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications. See Note 1 "Basis of Presentation" and Note 15 "Recent Accounting Pronouncements" to the consolidated financial statements for further detail. The emphasis of this discussion will be on the three months and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 for the consolidated statements of income. For the consolidated balance sheets, the emphasis of this discussion will be the balances as of September 30, 2018 compared to December 31, 2017.

This discussion and analysis contains statements that may be considered “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. See pages 5 through 7 for additional information regarding forward-looking statements.

CORPORATE PROFILE

Regions is a financial holding company headquartered in Birmingham, Alabama, that operates in the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of asset management, wealth management, securities brokerage, trust services, merger and acquisition advisory services and other specialty financing.

Regions conducts its banking operations through Regions Bank, an Alabama state-chartered commercial bank that is a member of the Federal Reserve System. At September 30, 2018, Regions operated 1,455 total branch outlets across the South, Midwest and Texas. Regions operates under three reportable business segments: Corporate Bank, Consumer Bank, and Wealth Management with the remainder split between Discontinued Operations and Other. See Note 12 “Business Segment Information” to the consolidated financial statements for more information regarding Regions’ segment reporting structure.

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 sale closed on July 2, 2018. The transaction generated a \$281 million gain (\$196 million after tax). On January 11, 2012, Regions entered into a stock purchase agreement to sell Morgan Keegan and related affiliates to Raymond James. The sale closed on April 2, 2012. Regions Investment Management, Inc. and Regions Trust were not included in the sale; they are included in the Wealth Management segment. See Note 2 “Discontinued Operations” to the consolidated financial statements for further discussion.

Regions’ profitability, like that of many other financial institutions, is dependent on its ability to generate revenue from net interest income and other financing income as well as non-interest income sources. Net interest income and other financing income is primarily the difference between the interest income Regions receives on interest-earning assets, such as loans and securities, and the interest expense Regions pays on interest-bearing liabilities, principally deposits and borrowings. Regions’ net interest income and other financing income is impacted by the size and mix of its balance sheet components and the interest rate spread between interest earned on its assets and interest paid on its liabilities. Net interest income and other financing income also includes rental income and depreciation expense associated with operating leases for which Regions is the lessor. Non-interest income includes fees from service charges on deposit accounts, card and ATM fees, mortgage servicing and secondary marketing, investment management and trust activities, capital markets and other customer services which Regions provides. Results of operations are also affected by the provision for loan losses and non-interest expenses such as salaries and employee benefits, occupancy, professional, legal and regulatory expenses, FDIC insurance assessments, and other operating expenses, as well as income taxes.

Economic conditions, competition, new legislation and related rules impacting regulation of the financial services industry and the monetary and fiscal policies of the Federal government significantly affect most, if not all, financial

institutions, including Regions. Lending and deposit activities and fee income generation are influenced by levels of business spending and investment, consumer income, consumer spending and savings, capital market activities, and competition among financial institutions, as well as customer preferences, interest rate conditions and prevailing market rates on competing products in Regions' market areas.

Regions' business strategy has been and continues to be focused on providing a competitive mix of products and services, delivering quality customer service and maintaining a branch distribution network with offices in convenient locations.

61

---

Table of Contents**THIRD QUARTER OVERVIEW**

Regions reported net income available to common shareholders of \$548 million, or \$0.50 per diluted share, in the third quarter of 2018 compared to \$295 million, or \$0.25 per diluted share, in the third quarter of 2017. Net income available to common shareholders from continuing operations was \$354 million, or \$0.32 per diluted share, compared to \$296 million, or \$0.25 per diluted share, over these same periods. The primary drivers of the increases in results from the prior year period were a gain on the sale of Regions Insurance Group reflected in discontinued operations, combined with increased net interest income and other financing income and decreased income tax expense. Per share amounts were impacted by share repurchases including an accelerated share repurchase agreement, which was entered into in the third quarter of 2018.

For the third quarter of 2018, net interest income and other financing income (taxable-equivalent basis) totaled \$956 million, up \$35 million compared to the third quarter of 2017. The net interest margin (taxable-equivalent basis) was 3.50 percent for the third quarter of 2018 and 3.36 percent in the third quarter of 2017. Both net interest income and other financing income and net interest margin (taxable-equivalent basis) benefited from higher market interest rates and average loan balances in 2018. These increases were partially offset by additional wholesale funding, which included expense associated with \$1.5 billion of debt issued in the third quarter of 2018.

The provision for loan losses totaled \$84 million in the third quarter of 2018 compared to \$76 million during the third quarter of 2017. Refer to the "Allowance for Credit Losses" section of Management's Discussion and Analysis for further detail.

Net charge-offs totaled \$82 million, or an annualized 0.40 percent of average loans, in the third quarter of 2018, compared to \$76 million, or an annualized 0.38 percent for the third quarter of 2017. See Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements for additional information.

The allowance for loan losses at September 30, 2018, was 1.03 percent of total loans, net of unearned income, compared to 1.17 percent at December 31, 2017. Total non-performing loans decreased to 0.66 percent of total loans, net of unearned income, at September 30, 2018, compared to 0.81 percent at December 31, 2017.

Non-interest income from continuing operations was \$519 million for the third quarter of 2018 compared to \$482 million for the third quarter of 2017. The increase was primarily driven by growth in capital markets income, card and ATM fees and other non-interest income. See Table 20 "Non-Interest Income from Continuing Operations" for more detail.

Total non-interest expense from continuing operations was \$922 million in the third quarter of 2018, a \$69 million increase from the third quarter of 2017. The increase was primarily driven by a \$60 million contribution to the Regions Financial Corporation Foundation during the third quarter of 2018. Higher salaries and benefits expense and professional, legal and regulatory costs also contributed to the increase year over year. See Table 21 "Non-Interest Expense from Continuing Operations" for more detail.

Income tax expense from continuing operations for the three months ended September 30, 2018 was \$85 million compared to income tax expense of \$138 million for the same period in 2017. See "Income Taxes" toward the end of the Management's Discussion and Analysis section of this report for more detail.

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 after-tax gain associated with the transaction was \$196 million. A discussion of activity within discontinued operations is included at the end of the Management's Discussion and Analysis section of this report. See Note 2 "Discontinued Operations" to the consolidated financial statements for additional information.

**2018 Expectations**

Management expectations for 2018 are noted below:

- Full year adjusted average loan growth in the low single digits compared to 2017 adjusted average balances
- Full year average deposits remain relatively stable compared to 2017 average balances, excluding brokered and Wealth Institutional Services deposits; revised from the previous expectation of growth in the low single digits
- Adjusted net interest income and other financing income (non-taxable equivalent basis) growth of 5 to 6 percent; revised from the previous expectation of 4 to 6 percent

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

- ▲ Adjusted non-interest income growth of 4.5 to 5.5 percent; revised from the previous expectation of 3 to 6 percent
- ▲ Adjusted non-interest expenses relatively stable
- ▲ Adjusted efficiency ratio less than 60 percent
- Positive adjusted operating leverage of approximately 3.5 to 4.5 percent; revised from the previous expectation of 3 to 5 percent
- Effective income tax rate of approximately 21 percent

62

---

Table of Contents

Full year net charge-offs of 35 to 50 basis points; based on recent trends and current market conditions, currently expect to be toward the lower end of the range

The reconciliation with respect to these forward-looking non-GAAP measures is expected to be consistent with the actual non-GAAP reconciliations within Management's Discussion and Analysis of this Form 10-Q. For more information related to the Company's 2018 expectations, including additional guidance within the ranges disclosed above, refer to the related sub-sections discussed in more detail within Management's Discussion and Analysis of this Form 10-Q.

**BALANCE SHEET ANALYSIS****CASH AND CASH EQUIVALENTS**

Cash and cash equivalents decreased approximately \$486 million from year-end 2017 to September 30, 2018, due primarily to a decrease in cash on deposit with the FRB, as the result of normal day-to-day operating variations.

**DEBT SECURITIES**

The following table details the carrying values of debt securities, including both available for sale and held to maturity:

Table 1— Debt Securities

	September 30, 2018	December 31, 2017
	(In millions)	
U.S. Treasury securities	\$276	\$ 331
Federal agency securities	46	28
Mortgage-backed securities:		
Residential agency	17,558	18,442
Residential non-agency	2	3
Commercial agency	4,410	4,361
Commercial non-agency	773	788
Corporate and other debt securities	1,130	1,108
	\$24,195	\$ 25,061

Regions maintains a highly rated securities portfolio consisting primarily of agency mortgage-backed securities. See Note 3 "Securities" to the consolidated financial statements for additional information.

Debt securities available for sale, which constitute the majority of the securities portfolio, are an important tool used to manage interest rate sensitivity and provide a primary source of liquidity for the Company. See the "Market Risk-Interest Rate Risk" and "Liquidity Risk" sections for more information.

**LOANS HELD FOR SALE**

Loans held for sale totaled \$331 million at September 30, 2018, consisting of \$297 million of residential real estate mortgage loans, \$19 million of commercial mortgage and other loans, and \$15 million of non-performing loans. At December 31, 2017, loans held for sale totaled \$348 million, consisting of \$325 million of residential real estate mortgage loans, \$6 million of commercial mortgage and other loans, and \$17 million of non-performing loans. The levels of residential real estate and commercial mortgage loans held for sale that are part of the Company's mortgage originations to be sold fluctuate depending on the timing of origination and sale to third parties.

Table of Contents

## LOANS

Loans, net of unearned income, represented approximately 75 percent of Regions' interest-earning assets at September 30, 2018. The following table presents the distribution of Regions' loan portfolio by portfolio segment and class, net of unearned income:

Table 2—Loan Portfolio

	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	326	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

## PORTFOLIO CHARACTERISTICS

The following sections describe the composition of the portfolio segments and classes disclosed in Table 2, explain changes in balances from 2017 year-end, and highlight the related risk characteristics. Regions believes that its loan portfolio is well diversified by product, client, and geography throughout its footprint. However, the loan portfolio may be exposed to certain concentrations of credit risk which exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. See Note 4 “Loans and the Allowance for Credit Losses” to the consolidated financial statements for additional discussion.

## 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 and other expansion projects. Commercial and industrial loans increased \$1.9 billion since year-end 2017 driven primarily by new relationships and expansion of existing relationships within the Company's corporate and middle market portfolios aided by growth within specialized lending groups, which offset the impact of large corporate customers utilizing the fixed income market to pay down and pay off bank debt. 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 flows generated by business operations. These loans declined \$250 million from year-end 2017, reflecting a slowing pace of decline. Owner-occupied commercial real estate construction loans 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.

Over half of the Company's total loans are included in the commercial portfolio segment. These balances are spread across numerous industries, as noted in the table below. The Company manages the related risks to this portfolio by setting certain lending limits for each significant industry.

The following tables provide detail of Regions' commercial lending balances in selected industries.



Table of Contents

Table 3—Selected Industry Exposure

	September 30, 2018		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 1,257	\$ 813	\$ 2,070
Agriculture	569	193	762
Educational services	2,420	313	2,733
Energy	2,037	2,013	4,050
Financial services	3,577	3,644	7,221
Government and public sector	2,765	438	3,203
Healthcare	4,199	1,810	6,009
Information	1,502	877	2,379
Manufacturing	4,528	3,925	8,453
Professional, scientific and technical services	1,711	1,353	3,064
Real estate	6,655	6,304	12,959
Religious, leisure, personal and non-profit services	1,756	761	2,517
Restaurant, accommodation and lodging	2,088	599	2,687
Retail trade	2,459	2,073	4,532
Transportation and warehousing	1,812	1,012	2,824
Utilities	1,469	2,461	3,930
Wholesale goods	3,468	2,347	5,815
Other <sup>(1)</sup>	33	2,078	2,111
Total commercial	\$ 44,305	\$ 33,014	\$ 77,319
	December 31, 2017 <sup>(2)</sup>		
	Loans	Unfunded Commitments	Total Exposure
	(In millions)		
Administrative, support, waste and repair	\$ 976	\$ 620	\$ 1,596
Agriculture	525	247	772
Educational services	2,353	378	2,731
Energy	1,767	1,877	3,644
Financial services	3,615	3,336	6,951
Government and public sector	2,785	394	3,179
Healthcare	4,216	1,586	5,802
Information	1,294	813	2,107
Manufacturing	4,181	3,785	7,966
Professional, scientific and technical services	1,764	1,266	3,030
Real estate	6,315	5,772	12,087
Religious, leisure, personal and non-profit services	1,841	726	2,567
Restaurant, accommodation and lodging	2,224	642	2,866
Retail trade	2,336	2,294	4,630
Transportation and warehousing	1,815	863	2,678
Utilities	1,557	2,114	3,671
Wholesale goods	3,148	2,267	5,415
Other <sup>(1)</sup>	(72 )	1,604	1,532
Total commercial	\$ 42,640	\$ 30,584	\$ 73,224



(1) "Other" contains balances related to non-classifiable and invalid business industry codes offset by payments in process and fee accounts that are not available at the loan level.

(2) As customers' businesses evolve (e.g. up or down the vertical manufacturing chain), Regions may need to change the assigned business industry code used to define the customer relationship. When these changes occur, Regions does not recast the customer history for prior periods into the new classification because the business industry code used in the prior period was deemed appropriate. As a result, comparable period changes may be impacted.

65

---

Table of Contents

## Investor Real Estate

Loans for real estate development are repaid through cash flows 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, this category includes loans made to finance income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers. Total investor real estate loans increased \$209 million in comparison to 2017 year-end balances. Due to the nature of the cash flows typically used to repay investor real estate loans, these loans are particularly vulnerable to weak economic conditions.

## Residential First Mortgage

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. These loans experienced a \$159 million increase in comparison to 2017 year-end balances. This increase was partially offset by the sale of \$254 million of primarily performing troubled debt restructured loans and certain non-restructured interest-only loans during the first quarter of 2018. Approximately \$2.1 billion in new loan originations were retained on the balance sheet through the first nine months of 2018.

## Home Equity

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 homes. The home equity portfolio totaled \$9.4 billion at September 30, 2018 as compared to \$10.2 billion at December 31, 2017. Substantially all of this portfolio was originated through Regions' branch network.

The following table presents information regarding the future principal payment reset dates for the Company's home equity lines of credit as of September 30, 2018. The balances presented are based on maturity date for lines with a balloon payment and draw period expiration date for lines that convert to a repayment period.

Table 4—Home Equity Lines of Credit - Future Principal Payment Resets

	First Lien	% of Total	Second Lien	% of Total	Total
	(Dollars in millions)				
2018	\$4	0.07 %	\$8	0.14 %	\$12
2019	54	0.89	45	0.76	99
2020	113	1.89	86	1.43	199
2021	136	2.26	116	1.94	252
2022	147	2.45	137	2.28	284
2023-2027	1,847	30.82	1,903	31.76	3,750
2028-2032	795	13.27	599	9.99	1,394
Thereafter	1	0.02	2	0.03	3
Total	\$3,097	51.67 %	\$2,896	48.33 %	\$5,993

Of the \$9.4 billion home equity portfolio at September 30, 2018, approximately \$6.0 billion were home equity lines of credit and \$3.4 billion were closed-end home equity loans (primarily originated as amortizing loans). Beginning in December 2016, new home equity lines of credit have a 10-year draw period and a 20-year repayment term. During the 10-year draw period customers do not have an interest-only payment option, except on a very limited basis. From May 2009 to December 2016, home equity lines of credit had a 10-year draw period and a 10-year repayment term. Prior to May 2009, home equity lines of credit had a 20-year repayment term with a balloon payment upon maturity or a 5-year draw period with a balloon payment upon maturity. The term "balloon payment" means there are no principal payments required until the balloon payment is due for interest-only lines of credit.

## Other Consumer Credit Quality Data

The Company calculates an estimate of the current value of property secured as collateral for both residential first mortgage and home equity lending products (“current LTV”). The estimate is based on home price indices compiled by a third party. The third party data indicates trends for MSAs. Regions uses the third party valuation trends from the MSAs in the Company's footprint in its estimate. The trend data is applied to the loan portfolios, taking into account the age of the most recent valuation and geographic area.

The following table presents current LTV data for components of the residential first mortgage and home equity classes of the consumer portfolio segment. Current LTV data for the remaining loans in the portfolio is not available, primarily because some

Table of Contents

of the loans are serviced by others. Data may also not be available due to mergers and systems integrations. The amounts in the table represent the entire loan balance. For purposes of the table below, if the loan balance exceeds the current estimated collateral, the entire balance is included in the “Above 100%” category, regardless of the amount of collateral available to partially offset the shortfall.

Table 5—Estimated Current Loan to Value Ranges

	September 30, 2018			December 31, 2017		
	Residential First Mortgage Lien	Home Equity 1st Lien	2nd Lien	Residential First Mortgage Lien	Home Equity 1st Lien	2nd Lien
(In millions)						
Estimated current LTV:						
Above 100%	\$56	\$33	\$58	\$123	\$49	\$117
80% - 100%	1,727	177	360	1,711	275	485
Below 80%	12,004	5,954	2,665	11,639	6,257	2,766
Data not available	433	70	118	588	85	130
	\$14,220	\$6,234	\$3,201	\$14,061	\$6,666	\$3,498

## Indirect—Vehicles

Indirect-vehicles lending, which is lending initiated through third-party business partners, largely consists of loans made through automotive dealerships. This portfolio class decreased \$180 million from year-end 2017, primarily because Regions terminated a third-party purchase arrangement during the fourth quarter of 2016. The balance is expected to continue to decrease.

## Indirect—Other Consumer

Indirect-other consumer lending represents other point of sale lending through third parties. This portfolio class increased \$712 million from year-end 2017, primarily due to continued growth in existing point of sale initiatives.

## Consumer Credit Card

Consumer credit card lending represents primarily open-ended variable interest rate consumer credit card loans. These balances decreased \$17 million from year-end 2017.

## Other Consumer

Other consumer loans primarily include direct consumer loans, overdrafts and other revolving loans.

Regions qualitatively considers factors such as periodic updates of FICO scores, unemployment, home prices, and geography as credit quality indicators for consumer loans. FICO scores are obtained at origination and refreshed FICO scores are obtained by the Company quarterly for all consumer loans. The following tables present estimated current FICO score data for components of classes of the consumer portfolio segment. Current FICO data is not available for the remaining loans in the portfolio for various reasons; for example, if customers do not use sufficient credit, an updated score may not be available. Residential first mortgage and home equity balances with FICO scores below 620 were 5 percent of the combined portfolios for both September 30, 2018 and December 31, 2017.

Table 6—Estimated Current FICO Score Ranges

	September 30, 2018				Indirect—Vehicles	Indirect—Other Consumer	Other Consumer Credit Card	Other Consumer
	Residential First Mortgage Lien	Home Equity 1st Lien	2nd Lien					
(In millions)								
Below 620	\$680	\$247	\$156	\$ 292	\$ 57	\$ 98	\$ 72	
620-680	761	445	268	351	210	225	147	
681-720	1,284	719	381	386	378	280	224	
Above 720	10,977	4,688	2,343	2,043	1,390	662	697	
Data not available	518	135	53	74	144	8	80	
	\$14,220	\$6,234	\$3,201	\$ 3,146	\$ 2,179	\$ 1,273	\$ 1,220	



Table of Contents

	December 31, 2017										
	Residential First Mortgage	Home Equity 1st Lien	2nd Lien	Indirect—	Vehicles	Indirect—Other Consumer	Consumer Credit Card	Other Consumer			
	(In millions)										
Below 620	\$741	\$261	\$161	\$	328	\$	43	\$	85	\$	72
620-680	829	492	300	396	153	220	146				
681-720	1,353	775	435	419	246	288	227				
Above 720	10,344	5,000	2,546	2,088	765	689	656				
Data not available	794	138	56	95	260	8	64				
	\$14,061	\$6,666	\$3,498	\$	3,326	\$	1,467	\$	1,290	\$	1,165

**ALLOWANCE FOR CREDIT LOSSES**

The allowance for credit losses (“allowance”) consists of two components: the allowance for loan losses and the reserve for unfunded credit commitments. Discussion of the methodology used to calculate the allowance is included in Note 1 “Summary of Significant Accounting Policies” and Note 6 “Allowance for Credit Losses” to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017, as well as related discussion in Management’s Discussion and Analysis.

The allowance for loan losses totaled \$840 million at September 30, 2018 as compared to \$934 million at December 31, 2017. The allowance for loan losses as a percentage of net loans decreased from 1.17 percent at December 31, 2017 to 1.03 percent at September 30, 2018. The decrease in percentage is attributable to reductions in non-performing, criticized and TDR loans, as well as total delinquencies.

The provision for loan losses decreased by \$60 million for the first nine months of 2018 as compared to the same period in 2017. Net charge-offs for the first nine months of 2018 were approximately \$16 million lower as compared to the same period in 2017. During the first nine months of 2018, the provision for loan losses was less than net charge-offs by approximately \$94 million, as a result of broad-based improvements in credit metrics. Additionally, lower than anticipated losses associated with certain 2017 hurricanes resulted in the release of the Company’s \$40 million hurricane-specific loan loss allowance during 2018. Lastly, a \$16 million net reduction to the provision for loan losses from the first quarter of 2018 sale of \$254 million in residential first mortgage loans consisting primarily of performing troubled debt restructured loans also contributed to the results.

In October 2018, a significant hurricane impacted Regions’ footprint, primarily in the state of Florida, particularly the Panhandle area, as well as southwest Georgia and southeast Alabama. Regions is assessing all aspects of the impact to its customers, and in some situations, customers are still evaluating the extent of damage. While Regions is still evaluating the aspects of the hurricane, the overall financial impact to the Company is not expected to be material. Management expects that net loan charge-offs will be in the 0.35 percent to 0.50 percent range for the 2018 year; based on recent trends and current market conditions, Regions currently expects to be toward the lower end of that range. Economic trends such as interest rates, unemployment, volatility in commodity prices and collateral valuations will impact the future levels of net charge-offs and may result in volatility of certain credit metrics during the remainder of 2018. Additionally, changes in circumstances related to individually large credits or certain portfolios may result in volatility.

Details regarding the allowance and net charge-offs, including an analysis of activity from the previous year’s totals, are included in Table 7 “Allowance for Credit Losses.”

Table of Contents

Table 7—Allowance for Credit Losses

	Nine Months Ended September 30	
	2018	2017
	(Dollars in millions)	
Allowance for loan losses at beginning of year	\$934	\$1,091
Loans charged-off:		
Commercial and industrial	91	124
Commercial real estate mortgage—owner-occupied	14	15
Commercial investor real estate mortgage	9	2
Commercial investor real estate construction	—	—
Residential first mortgage	12	9
Home equity	21	26
Indirect—vehicles	29	38
Indirect—other consumer	33	20
Consumer credit card	45	40
Other consumer	60	55
	314	329
Recoveries of loans previously charged-off:		
Commercial and industrial	28	22
Commercial real estate mortgage—owner-occupied	6	6
Commercial investor real estate mortgage	4	8
Commercial investor real estate construction	2	2
Residential first mortgage	5	3
Home equity	13	15
Indirect—vehicles	12	14
Indirect—other consumer	—	1
Consumer credit card	6	5
Other consumer	10	9
	86	85
Net charge-offs:		
Commercial and industrial	63	102
Commercial real estate mortgage—owner-occupied	8	9
Commercial investor real estate mortgage	5	(6 )
Commercial investor real estate construction	(2 )	(2 )
Residential first mortgage	7	6
Home equity	8	11
Indirect—vehicles	17	24
Indirect—other consumer	33	19
Consumer credit card	39	35
Other consumer	50	46
	228	244
Provision for loan losses	134	194
Allowance for loan losses at September 30	\$840	\$1,041
Reserve for unfunded credit commitments at beginning of year	\$53	\$69
Provision (credit) for unfunded credit losses	(3 )	(10 )
Reserve for unfunded credit commitments at September 30	\$50	\$59
Allowance for credit losses at September 30	\$890	\$1,100

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Loans, net of unearned income, outstanding at end of period	\$81,821	\$79,356		
Average loans, net of unearned income, outstanding for the period	\$80,294	\$79,956		
Ratios:				
Allowance for loan losses at end of period to loans, net of unearned income	1.03	%	1.31	%
Allowance for loan losses at end of period to non-performing loans, excluding loans held for sale	156	%	137	%
Net charge-offs as percentage of average loans, net of unearned income (annualized)	0.38	%	0.41	%

69

---



Table of Contents

## TROUBLED DEBT RESTRUCTURINGS (TDRs)

TDRs are modified loans in which a concession is provided to a borrower experiencing financial difficulty.

Residential first mortgage, home equity, consumer credit card and other consumer TDRs are consumer loans modified under the CAP. Commercial and investor real estate loan modifications are not the result of a formal program, but represent situations where modifications were offered as a workout alternative. Renewals of classified commercial and investor real estate loans are considered to be TDRs, even if no reduction in interest rate is offered, if the existing terms are considered to be below market. More detailed information is included in Note 4 "Loans and the Allowance For Credit Losses" to the consolidated financial statements. The following table summarizes the loan balance and related allowance for accruing and non-accruing TDRs for the periods presented:

Table 8—Troubled Debt Restructurings

	September 30, 2018		December 31, 2017	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
	(In millions)			
Accruing:				
Commercial	\$ 170	\$ 27	\$ 232	\$ 27
Investor real estate	49	4	90	6
Residential first mortgage	171	16	368	36
Home equity	203	6	245	4
Consumer credit card	1	—	1	—
Other consumer	6	—	9	—
	600	53	945	73
Non-accrual status or 90 days past due and still accruing:				
Commercial	195	22	115	30
Investor real estate	—	—	1	—
Residential first mortgage	42	4	69	7
Home equity	15	1	14	—
	252	27	199	37
Total TDRs - Loans	\$ 852	\$ 80	\$ 1,144	\$ 110
TDRs - Held For Sale	6	—	13	—
Total TDRs	\$ 858	\$ 80	\$ 1,157	\$ 110

Note: All loans listed in the table above are considered impaired under applicable accounting literature.

The following table provides an analysis of the changes in commercial and investor real estate TDRs. TDRs with subsequent restructurings that meet the definition of a TDR are only reported as TDR inflows in the period they were first modified. Other than resolutions such as charge-offs, foreclosures, payments, sales and transfers to held for sale, Regions may remove loans from TDR classification if the following conditions are met: the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, the loan has not been restructured as an "A" note/"B" note, the loan has been reported as a TDR over one fiscal year-end and the loan is subsequently refinanced or restructured at market terms such that it qualifies as a new loan.

For the consumer portfolio, changes in TDRs are primarily due to inflows from CAP modifications and outflows from payments and charge-offs. Given the types of concessions currently being granted under the CAP, as detailed in Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements, Regions does not expect that the market interest rate condition will be widely achieved. Therefore, Regions expects consumer loans modified through CAP to continue to be identified as TDRs for the remaining term of the loan.



Table of Contents

Table 9—Analysis of Changes in Commercial and Investor Real Estate TDRs

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Commercial Real Estate	Investor Real Estate	Commercial Real Estate	Investor Real Estate
	(In millions)			
Balance, beginning of period	\$347	\$ 91	\$520	\$ 95
Inflows	329	59	359	88
Outflows:				
Charge-offs	(35 )	—	(11 )	(1 )
Foreclosure	—	—	(2 )	—
Payments, sales and other <sup>(1)</sup>	(276 )	(101 )	(366 )	(77 )
Balance, end of period	\$365	\$ 49	\$500	\$ 105

(1) The majority of this category consists of payments and sales. "Other" outflows include normal amortization/accretion of loan basis adjustments and loans transferred to held for sale. It also includes \$30 million of commercial loans and \$5 million of investor real estate loans refinanced or restructured as new loans and removed from TDR classification for the nine months ended September 30, 2018. During the nine months ended September 30, 2017, \$59 million of commercial loans and \$10 million of investor real estate loans were refinanced or restructured as new loans and removed from TDR classification.

Table of Contents

## NON-PERFORMING ASSETS

Non-performing assets are summarized as follows:

Table 10—Non-Performing Assets

	September 30, 2018	December 31, 2017	
	(Dollars in millions)		
Non-performing loans:			
Commercial and industrial	\$341	\$ 404	
Commercial real estate mortgage—owner-occupied	80	118	
Commercial real estate construction—owner-occupied	8	6	
Total commercial	429	528	
Commercial investor real estate mortgage	2	5	
Commercial investor real estate construction	—	1	
Total investor real estate	2	6	
Residential first mortgage	42	47	
Home equity	66	69	
Total consumer	108	116	
Total non-performing loans, excluding loans held for sale	539	650	
Non-performing loans held for sale	15	17	
Total non-performing loans <sup>(1)</sup>	554	667	
Foreclosed properties	58	73	
Non-marketable investments received in foreclosure	12	—	
Total non-performing assets <sup>(1)</sup>	\$624	\$ 740	
Accruing loans 90 days past due:			
Commercial and industrial	\$4	\$ 4	
Commercial real estate mortgage—owner-occupied	2	1	
Total commercial	6	5	
Commercial investor real estate mortgage	—	1	
Total investor real estate	—	1	
Residential first mortgage <sup>(2)</sup>	61	92	
Home equity	39	37	
Indirect—vehicles	9	9	
Indirect other consumer	1	—	
Consumer credit card	17	19	
Other consumer	4	4	
Total consumer	131	161	
	\$137	\$ 167	
Restructured loans not included in the categories above	\$600	\$ 945	
Non-performing loans <sup>(1)</sup> to loans and non-performing loans held for sale	0.68 %	0.83 %	
Non-performing assets <sup>(1)</sup> to loans, foreclosed properties, non-marketable investments, and non-performing loans held for sale	0.76 %	0.92 %	

(1) Excludes accruing loans 90 days past due.

Excludes residential first mortgage loans that are 100% guaranteed by the FHA and all guaranteed loans sold to the

(2) GNMA where Regions has the right but not the obligation to repurchase. Total 90 days or more past due guaranteed loans excluded were \$83 million at September 30, 2018 and \$124 million at December 31, 2017.

Non-performing loans at September 30, 2018 have decreased compared to year-end levels, due to continued broad-based improvement in credit quality. Total commercial and investor real estate non-performing loans, excluding loans held for sale, that were paying as agreed (e.g., less than 30 days past due) represented approximately 60 percent of the total balance at September 30, 2018.

72

---

Table of Contents

Economic trends such as interest rates, unemployment, volatility in commodity prices, and collateral valuations will impact the future level of non-performing assets. Circumstances related to individually large credits could also result in volatility.

Total loans past due 90 days or more and still accruing, excluding government guaranteed loans, were \$137 million at September 30, 2018, a decrease from \$167 million at December 31, 2017.

At September 30, 2018, Regions had approximately \$75 million to \$135 million of potential problem commercial and investor real estate loans that were not included in non-accrual loans, but for which management had concerns as to the ability of such borrowers to comply with their present loan repayment terms. This is a likely estimate of the amount of commercial and investor real estate loans that have the potential to migrate to non-accrual status in the next quarter.

In order to arrive at the estimate of potential problem loans, credit personnel forecast certain larger dollar loans that may potentially be downgraded to non-accrual at a future time, depending on the occurrence of future events. These personnel consider a variety of factors, including the borrower's capacity and willingness to meet the contractual repayment terms, make principal curtailments or provide additional collateral when necessary, and provide current and complete financial information including global cash flows, contingent liabilities and sources of liquidity. Based upon the consideration of these factors, a probability weighting is assigned to loans to reflect the potential for migration to the pool of potential problem loans during this specific time period. Additionally, for other loans (for example, smaller dollar loans), a trend analysis is incorporated to determine the estimate of potential future downgrades. Because of the inherent uncertainty in forecasting future events, the estimate of potential problem loans ultimately represents the estimated aggregate dollar amounts of loans as opposed to an individual listing of loans.

The majority of the loans on which the potential problem loan estimate is based are considered criticized and classified. Detailed disclosures for substandard accrual loans (as well as other credit quality metrics) are included in Note 4 "Loans and the Allowance for Credit Losses" to the consolidated financial statements.

The following table provides an analysis of non-accrual loans (excluding loans held for sale) by portfolio segment:

Table 11—Analysis of Non-Accrual Loans

	Non-Accrual Loans, Excluding Loans Held for Sale			
	Nine Months Ended September 30, 2018			
	Commercial	Investor Real Estate	Consumer <sup>(1)</sup>	Total
	(In millions)			
Balance at beginning of period	\$ 528	\$ 6	\$ 116	\$ 650
Additions	278	19	—	297
Net payments/other activity	(209 )	(3 )	(5 )	(217 )
Return to accrual	(38 )	(2 )	—	(40 )
Charge-offs on non-accrual loans <sup>(2)</sup>	(97 )	(8 )	—	(105 )
Transfers to held for sale <sup>(3)</sup>	(28 )	(1 )	(3 )	(32 )
Transfers to real estate owned	(3 )	—	—	(3 )
Sales	(2 )	(9 )	—	(11 )
Balance at end of period	\$ 429	\$ 2	\$ 108	\$ 539

Table of Contents

	Non-Accrual Loans, Excluding Loans Held for Sale Nine Months Ended September 30, 2017			
	Commercial	Investor Real Estate	Consumer <sup>(1)</sup>	Total
	(In millions)			
Balance at beginning of period	\$ 836	\$ 17	\$ 142	\$ 995
Additions	423	7	—	430
Net payments/other activity	(389 )	(7 )	(26 )	(422 )
Return to accrual	(80 )	(8 )	—	(88 )
Charge-offs on non-accrual loans <sup>(2)</sup>	(133 )	(1 )	—	(134 )
Transfers to held for sale <sup>(3)</sup>	(14 )	(2 )	—	(16 )
Transfers to foreclosed properties	(3 )	(1 )	—	(4 )
Sales	(1 )	—	—	(1 )
Balance at end of period	\$ 639	\$ 5	\$ 116	\$ 760

(1) All net activity within the consumer portfolio segment other than sales and transfers to held for sale (including related charge-offs) is included as a single net number within the net payments/other activity line.

(2) Includes charge-offs on loans on non-accrual status and charge-offs taken upon sale and transfer of non-accrual loans to held for sale.

(3) Transfers to held for sale are shown net of charge-offs of \$11 million and \$5 million recorded upon transfer for the nine months ended September 30, 2018 and 2017, respectively.

**GOODWILL**

Goodwill totaled \$4.8 billion at September 30, 2018 and \$4.9 billion at December 31, 2017 and is allocated to each of Regions' reportable segments (each a reporting unit), at which level goodwill is tested for impairment on an annual basis or more often if events and circumstances indicate the fair value of the reporting unit may have declined below the carrying value (refer to Note 1 "Summary of Significant Accounting Policies" to the 2017 consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017 for further discussion of when Regions tests goodwill for impairment and the Company's methodology and valuation approaches used to determine the estimated fair value of each reporting unit). The decline in the goodwill balance in the third quarter of 2018 is due to the sale of Regions Insurance Group. See Note 2 "Discontinued Operations" for related disclosure. The result of the assessment performed for the third quarter of 2018 did not indicate that the estimated fair values of the Company's reporting units (Corporate Bank, Consumer Bank and Wealth Management) had declined below their respective carrying values. 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.

**OTHER EARNING ASSETS**

Other earning assets totaled \$1.8 billion at September 30, 2018, consisting primarily of \$880 million of FRB and FHLB stock, \$393 million of operating lease assets, and \$475 million marketable equity securities. At December 31, 2017, other earning assets totaled \$1.9 billion, consisting primarily of \$684 million of FRB and FHLB stock, \$489 million of operating lease assets, and \$414 million of marketable equity securities.

Table of Contents**DEPOSITS**

Regions competes with other banking and financial services companies for a share of the deposit market. Regions' ability to compete in the deposit market depends heavily on the pricing of its deposits and how effectively the Company meets customers' needs. Regions employs various means to meet those needs and enhance competitiveness, such as providing a high level of customer service, competitive pricing and convenient branch locations for its customers. Regions also serves customers through providing centralized, high-quality banking services and alternative product delivery channels such as mobile and internet banking.

The following table summarizes deposits by category:

Table 12—Deposits

	September 30, 2018	December 31, 2017
	(In millions)	
Non-interest-bearing demand	\$35,354	\$ 36,127
Savings	8,900	8,413
Interest-bearing transaction	18,586	20,161
Money market—domestic	23,896	25,306
Money market—foreign	—	23
Low-cost deposits	86,736	90,030
Time deposits	6,519	6,859
	\$93,255	\$ 96,889

Total deposits at September 30, 2018 decreased approximately \$3.6 billion compared to year-end 2017 levels, driven by decreases in interest-bearing transaction accounts, money market accounts, non-interest-bearing demand accounts and time deposits, partially offset by an increase in savings accounts. Interest-bearing transaction accounts have declined primarily due to the Company's continued strategic reduction of certain trust customer deposits, which require collateralization by securities, and have been shifted into other fee income-producing customer investments. Money market accounts have continued to decline as a result of a decision to reduce higher-cost brokered deposits that were no longer a necessary component of the Company's funding strategy. The non-interest-bearing demand decline is due primarily to customers using liquidity to pay down debt or invest in their businesses. Customer time deposits declined as a result of the Company's strong liquidity profile providing less need for higher-cost deposits as part of its funding strategy.

**SHORT-TERM BORROWINGS**

Short-term borrowings, which consist of FHLB advances, totaled \$3.3 billion at September 30, 2018 as compared to \$500 million at December 31, 2017. The levels of these borrowings can fluctuate depending on the Company's funding needs and the sources utilized.

In the near term, Regions expects the use of wholesale unsecured borrowings for its funding needs to remain low. Short-term secured borrowings, such as securities sold under agreements to repurchase and FHLB advances, are a core portion of Regions' funding strategy.

The securities financing market and specifically short-term FHLB advances continue to provide reliable funding at attractive rates. See the "Liquidity Risk" section for further detail of Regions' borrowing capacity with the FHLB.



Table of Contents

## LONG-TERM BORROWINGS

Table 13—Long-Term Borrowings

	September 30, 2018	December 31, 2017
	(In millions)	
Regions Financial Corporation (Parent):		
2.00% senior notes due May 2018	\$—	\$ 101
3.20% senior notes due February 2021	1,101	1,101
2.75% senior notes due August 2022	995	995
3.80% senior notes due August 2023	498	—
7.75% subordinated notes due September 2024	100	100
6.75% subordinated debentures due November 2025	158	158
7.375% subordinated notes due December 2037	297	297
Valuation adjustments on hedged long-term debt	(89	) (50
	3,060	2,702
Regions Bank:		
Federal Home Loan Bank advances	5,703	3,653
2.25% senior notes due September 2018	—	749
7.50% subordinated notes due May 2018	—	500
2.75% senior notes due April 2021	548	—
3 month LIBOR plus 0.38% of floating rate senior notes due April 2021	349	—
3.374% senior notes converting to 3 month LIBOR plus 0.50% and callable August 2020, due August 2021	499	—
3 month LIBOR plus 0.50% of floating rate senior notes due August 2021	499	—
6.45% subordinated notes due June 2037	495	495
Other long-term debt	33	35
Valuation adjustments on hedged long-term debt	(8	) (2
	8,118	5,430
Total consolidated	\$11,178	\$ 8,132

Long-term borrowings increased by approximately \$3.0 billion in the first nine months of 2018 due primarily to increases in FHLB advances and senior notes issuances. These increases were partially offset by maturities and a redemption of notes during the period.

In the first nine months of 2018, Regions issued \$500 million of senior notes, and simultaneously entered into an interest rate swap effectively converting the notes to floating rate notes at 1 month LIBOR. Regions also had \$100 million of senior notes mature during the first nine months of 2018.

In the first nine months of 2018, Regions Bank issued \$1.9 billion of senior notes. These senior notes included an issuance of \$550 million of 2.75% senior notes, which were effectively converted to floating rate notes at 1 month LIBOR through the simultaneous execution of an interest rate swap. Regions Bank also redeemed \$750 million of senior notes and had \$500 million of subordinated notes mature during the first nine months of 2018.

Long-term FHLB advances have a weighted-average interest rate of 2.3 percent at September 30, 2018 and 1.4 percent at December 31, 2017 with remaining maturities ranging from less than one year to twelve years and a weighted-average of 0.7 years.

Table of Contents

**STOCKHOLDERS' EQUITY**

Stockholders' equity was \$14.8 billion at September 30, 2018 as compared to \$16.2 billion at December 31, 2017. During the first nine months of 2018, net income increased stockholders' equity by \$1.4 billion, while cash dividends on common stock reduced stockholders' equity by \$349 million and cash dividends on preferred stock reduced stockholder's equity by \$48 million. Changes in accumulated other comprehensive income decreased stockholders' equity by \$645 million, primarily due to the net change in unrealized gains (losses) on securities available for sale and derivative instruments as a result of increases in market interest rates during 2018. Common stock repurchased during the first nine months of 2018 reduced stockholders' equity by \$1.8 billion. These shares were immediately retired and therefore are not included in treasury 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.

See Note 7 "Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)" for additional information.

**REGULATORY REQUIREMENTS**

**CAPITAL RULES**

Regions and Regions Bank are required to comply with regulatory capital requirements established by Federal and State banking agencies. These regulatory capital requirements involve quantitative measures of the Company's assets, liabilities and selected off-balance sheet items, and also qualitative judgments by the regulators. Failure to meet minimum capital requirements can subject the Company to a series of increasingly restrictive regulatory actions. Under the Basel III Rules, Regions is designated as a standardized approach bank and, as such, began transitioning to the Basel III Rules in January 2015 subject to a phase-in period extending to January 2019. When fully phased in, the Basel III Rules will increase capital requirements through higher minimum capital levels as well as through increases in risk-weights for certain exposures. Additionally, the Basel III Rules place greater emphasis on common equity. The Basel III Rules, among other things, (i) introduce a measure called CET1, (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments to capital as compared to prior regulations.

Additionally, the Basel III Rules introduce a new capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer is on top of minimum risk-weighted asset ratios. The Basel III Rules also prescribe a standardized approach for risk-weightings of assets and off-balance sheet exposures to derive the capital ratios.

In September 2017, the federal banking agencies proposed to revise and simplify the capital treatment for selected categories of deferred tax assets, MSRs, investments in non-consolidated financial entities and minority interests for banking organizations, such as Regions and Regions Bank, that are not subject to the advanced approach. In November 2017, the federal banking agencies revised the Basel III Rules to extend the current transitional treatment of these items for standardized approach banking organizations until the September 2017 proposal is finalized. The September 2017 proposal would also change the capital treatment of high volatility commercial real estate loans under the standardized approach. These changes would have the impact of increasing regulatory capital ratios for some standardized approach banking organizations such as Regions. Regions continues to review the proposal and its impact on the Company's capital requirements.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk-weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply

only to advanced approach institutions, and not to Regions or Regions Bank. The impact of Basel IV on the Company will depend on the manner in which it is implemented by the federal banking regulators.

On April 10, 2018, the federal banking agencies issued a proposal to simplify capital rules for large banks. The proposal introduces a "stress capital buffer," which would replace the existing capital conservation buffer and incorporate forward-looking stress test results into non-stress capital requirements. The proposed stress capital buffer is defined as the greater of the sum of a bank's degradation in its CET1 capital ratio in CCAR, excluding any planned capital actions, and four quarters of planned common stock dividends or a floor of 2.5% of risk-weighted assets.

On May 14, 2018, the federal banking agencies issued a proposal that would amend regulatory capital rules to provide banks with the option to phase in the day-one effects on regulatory capital that may result from adoption of the new current expected credit losses accounting standard (see Note 15 "Recent Accounting Pronouncements"). Additionally, the agencies are proposing

77

---

Table of Contents

amendments to stress testing regulations which would delay incorporation of the new accounting standard in stress testing until the 2020 stress test cycle.

The Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA") was enacted on May 24, 2018, which provides certain limited amendments to the Dodd-Frank Act as well as other modifications to certain post-crisis regulatory requirements. The EGRRCPA raises the asset threshold for the Systemically Important Financial Institution designation from \$50 billion to \$250 billion and eliminates the company-run stress tests for institutions with less than \$250 billion in assets. The EGRRCPA will likely decrease the overall regulatory burden on institutions like Regions; however, the ultimate impact is uncertain at this time and will depend on the implementation of the law by the federal banking agencies. On July 6, 2018, the federal banking agencies issued an interagency statement regarding the impact of the EGRRCPA. The statement provides information on rules and associated reporting requirements that EGRRCPA affected such as company-run stress testing, resolution plans, Volcker Rule, HVCRE exposures, and other provisions. Among other things, the statement permits banks to use current information to estimate and report HVCRE acquisition, development and construction loans as defined in the EGRRCPA. Regions implemented this change effective June 30, 2018, and it did not have a material impact.

Additional discussion of the Basel III Rules and their applicability to Regions is included in Note 14 "Regulatory Capital Requirements and Restrictions" to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2017, as well as related discussion in Management's Discussion and Analysis.

The following table summarizes the applicable holding company and bank regulatory requirements:

Table 14—Regulatory Capital Requirements

Transitional Basis Basel III Regulatory Capital Rules <sup>(1)</sup>	September 30, 2018 Ratio <sup>(2)</sup>	December 31, 2017 Ratio	Minimum Requirement	To Be Well Capitalized
Basel III common equity Tier 1 capital:				
Regions Financial Corporation	10.18 %	11.05 %	4.50 %	N/A
Regions Bank	12.22	12.49	4.50	6.50 %
Tier 1 capital:				
Regions Financial Corporation	10.97 %	11.86 %	6.00 %	6.00 %
Regions Bank	12.22	12.49	6.00	8.00
Total capital:				
Regions Financial Corporation	12.77 %	13.78 %	8.00 %	10.00 %
Regions Bank	13.57	13.97	8.00	10.00
Leverage capital:				
Regions Financial Corporation	9.42 %	10.01 %	4.00 %	N/A
Regions Bank	10.51	10.54	4.00	5.00 %

(1) The 2018 and 2017 capital ratios were calculated at different points of the phase-in period under the Basel III Rules and therefore are not directly comparable.

(2) The current quarter Basel III CET1 capital, Tier 1 capital, Total capital, and Leverage capital ratios are estimated. The reductions in the capital ratios of Regions since December 31, 2017 are primarily the result of share repurchases, including the contractual repurchase agreement entered into in the third quarter of 2018. See Note 7 "Stockholders' Equity and Accumulated Other Comprehensive Income (Loss)" to the consolidated financial statements for additional discussion.

#### LIQUIDITY COVERAGE RATIO

The Federal Reserve, the OCC and the FDIC approved a final rule in 2014 implementing a minimum LCR requirement for certain large BHCs, savings and loan holding companies and depository institutions, and a less stringent LCR requirement (the "modified LCR") for other banking organizations, such as Regions, with \$50 billion or

more in total consolidated assets. The final rule imposes a monthly calculation requirement. As of January 1, 2017, the LCR calculation rule has been fully phased in. In December 2016, the Federal Reserve issued a final rule on the public disclosure of the LCR calculation that requires BHCs, such as Regions, to disclose publicly, on a quarterly basis, quantitative and qualitative information about certain components of its LCR for quarterly periods ending after October 1, 2018.

At September 30, 2018, the Company was fully compliant with the LCR requirements. Changes in the mix and size of the Company's balance sheet and investment portfolio are likely to occur in the future, and additional funding may need to be sourced to remain compliant.

78

---

Table of Contents

See the “Supervision and Regulation—Liquidity Regulation” subsection of the “Business” section and the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 for more information.

**RATINGS**

Table 15 “Credit Ratings” reflects the debt ratings information of Regions Financial Corporation and Regions Bank by Standard and Poor’s (“S&P”), Moody’s, Fitch and Dominion Bond Rating Service (“DBRS”) as of September 30, 2018 and December 31, 2017.

Table 15—Credit Ratings

	As of September 30, 2018 and December 31, 2017			
	S&P	Moody’s	Fitch	DBRS
<b>Regions Financial Corporation</b>				
Senior unsecured debt	BBB+	Baa2	BBB+	BBBH
Subordinated debt	BBB	Baa2	BBB	BBB
<b>Regions Bank</b>				
Short-term	A-2	P-1	F2	R-1L
Long-term bank deposits	N/A	A2	A-	AL
Long-term rating	A-	A2	BBB+	N/A
Senior unsecured debt	A-	Baa2	BBB+	AL
Subordinated debt	BBB+	Baa2	BBB	BBBH
Outlook	Stable	Stable	Stable	Positive

In general, ratings agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, probability of government support, and level and quality of earnings. Any downgrade in credit ratings by one or more ratings agencies may impact Regions in several ways, including, but not limited to, Regions’ access to the capital markets or short-term funding, borrowing cost and capacity, collateral requirements, and acceptability of its letters of credit, thereby potentially adversely impacting Regions’ financial condition and liquidity. See the “Risk Factors” section in the Annual Report on Form 10-K for the year ended December 31, 2017 for more information.

A security rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

**NON-GAAP MEASURES**

The table below presents computations of earnings and certain other financial measures, which exclude certain significant items that are included in the financial results presented in accordance with GAAP. These non-GAAP financial measures include “adjusted average total loans,” “adjusted efficiency ratio,” “adjusted fee income ratio,” “return on average tangible common stockholders’ equity,” on a consolidated and continuing operations basis, and end of period “tangible common stockholders’ equity,” and “Basel III CET1, on a fully phased-in basis” and related ratios. Regions believes that expressing earnings and certain other financial measures excluding these significant items provides a meaningful base for period-to-period comparisons, which management believes will assist investors in analyzing the operating results of the Company and predicting future performance. These non-GAAP financial measures are also used by management to assess the performance of Regions’ business because management does not consider the activities related to the adjustments to be indications of ongoing operations. Regions believes that presentation of these non-GAAP financial measures will permit investors to assess the performance of the Company on the same basis as that applied by management. Management and the Board utilize these non-GAAP financial measures as follows:

- Preparation of Regions’ operating budgets
- Monthly financial performance reporting
- Monthly close-out reporting of consolidated results (management only)

Presentations to investors of Company performance

Total average loans is presented excluding the impact of the first quarter 2018 residential first mortgage loan sale and the indirect vehicles third-party exit portfolio to arrive at adjusted average total loans (non-GAAP). Regions believes adjusting average total loans provides a meaning calculation of loan growth rates and presents them on the same basis as that applied by management.

The adjusted efficiency ratio (non-GAAP), which is a measure of productivity, is generally calculated as adjusted non-interest expense divided by adjusted total revenue on a taxable-equivalent basis. The adjusted fee income ratio (non-GAAP) is generally calculated as adjusted non-interest income divided by adjusted total revenue on a taxable-equivalent basis. Management uses these

Table of Contents

ratios to monitor performance and believes these measures provide meaningful information to investors. Non-interest expense (GAAP) is presented excluding adjustments to arrive at adjusted non-interest expense (non-GAAP), which is the numerator for the adjusted efficiency ratio. Non-interest income (GAAP) is presented excluding adjustments to arrive at adjusted non-interest income (non-GAAP), which is the numerator for the adjusted fee income ratio. Net interest income and other financing income on a taxable-equivalent basis and non-interest income are added together to arrive at total revenue on a taxable-equivalent basis. Adjustments are made to arrive at adjusted total revenue on a taxable-equivalent basis (non-GAAP), which is the denominator for the adjusted efficiency and adjusted fee income ratios.

Tangible common stockholders' equity ratios have become a focus of some investors in analyzing the capital position of the Company absent the effects of intangible assets and preferred stock. Traditionally, the Federal Reserve and other banking regulatory bodies have assessed a bank's capital adequacy based on Tier 1 capital, the calculation of which is codified in federal banking regulations. Analysts and banking regulators have assessed Regions' capital adequacy using the tangible common stockholders' equity measure. Because tangible common stockholders' equity is not formally defined by GAAP, this measure is considered to be a non-GAAP financial measure and other entities may calculate it differently than Regions' disclosed calculations. Since analysts and banking regulators may assess Regions' capital adequacy using tangible common stockholders' equity, Regions believes that it is useful to provide investors the ability to assess Regions' capital adequacy on this same basis.

The Basel Committee's Basel III framework will strengthen international capital and liquidity regulations. When fully phased-in, Basel III will increase capital requirements through higher minimum capital levels as well as through increases in risk-weights for certain exposures. Additionally, the Basel III Rules place greater emphasis on common equity. The Federal Reserve released its final Basel III Rules detailing the U.S. implementation of Basel III in 2013. Regions, as a standardized approach bank, began transitioning to the Basel III framework in January 2015 subject to a phase-in period extending through January 2019. Because the Basel III implementation regulations will not be fully phased-in until 2019 and, are not formally defined by GAAP, these measures are considered to be non-GAAP financial measures. Since analysts and banking regulators may assess Regions' capital adequacy using the fully phased-in Basel III framework, Regions believes that it is useful to provide investors information enabling them to assess Regions' capital adequacy on the same basis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In particular, a measure of earnings that excludes selected items does not represent the amount that effectively accrues directly to stockholders.

The following tables provide: 1) a reconciliation of average total loans to adjusted average total loans (non-GAAP), 2) a reconciliation of net income (GAAP) to net income available to common shareholders (GAAP), 3) a reconciliation of net income available to common shareholders (GAAP) to net income available to common shareholders from continuing operations (GAAP) 4) a reconciliation of non-interest expense from continuing operations (GAAP) to adjusted non-interest expense from continuing operations (non-GAAP), 5) a reconciliation of non-interest income from continuing operations (GAAP) to adjusted non-interest income from continuing operations (non-GAAP), 6) a computation of adjusted total revenue (non-GAAP), 7) a computation of the adjusted efficiency ratio (non-GAAP), 8) a computation of the adjusted fee income ratio (non-GAAP), 9) a reconciliation of average and ending stockholders' equity (GAAP) to average and ending tangible common stockholders' equity (non-GAAP) and calculations of related ratios (non-GAAP), 10) a reconciliation of stockholders' equity (GAAP) to Basel III CET1, on a fully phased-in basis (non-GAAP), and 11) calculation of the related ratio based on Regions' current understanding of the Basel III requirements (non-GAAP).

Table 16—GAAP to Non-GAAP Reconciliations

	Three Months	Nine Months
	Ended September	Ended September
	30	30



Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

	2018	2017	2018	2017
	(In millions, net of unearned income)			
<b>ADJUSTED AVERAGE BALANCES OF LOANS</b>				
Average total loans	\$81,022	\$79,585	\$80,294	\$79,956
Less: Balances of residential first mortgage loans sold <sup>(1)</sup>	—	254	54	254
Less: Indirect—vehicles third-party	776	1,406	914	1,616
Adjusted average total loans (non-GAAP)	\$80,246	\$77,925	\$79,326	\$78,086

80

---

Table of Contents

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
	(Dollars in millions)			
<b>INCOME — CONSOLIDATED</b>				
Net income (GAAP)	\$564	\$311	\$1,353	\$928
Preferred dividends (GAAP)	(16 )	(16 )	(48 )	(48 )
Net income available to common shareholders (GAAP)	A \$548	\$295	\$1,305	\$880
Income (loss) from discontinued operations, net of tax (GAAP)	194	(1 )	191	7
Net income from continuing operations available to common shareholders (GAAP)	B \$354	\$296	\$1,114	\$873
<b>ADJUSTED EFFICIENCY AND FEE INCOME RATIOS — CONTINUING OPERATIONS</b>				
Non-interest expense (GAAP)	C \$922	\$853	\$2,717	\$2,571
Significant items:				
Contribution to Regions' Financial Corporation foundation	(60 )	—	(60 )	—
Branch consolidation, property and equipment charges	(4 )	(5 )	(8 )	(13 )
Expenses associated with residential mortgage loan sale	—	—	(4 )	—
Salary and employee benefits—severance charges	(5 )	(1 )	(54 )	(8 )
Adjusted non-interest expense (non-GAAP)	D \$853	\$847	\$2,591	\$2,550
Net interest income and other financing income (GAAP)	\$942	\$897	\$2,777	\$2,638
Taxable-equivalent adjustment	13	23	38	67
Net interest income and other financing income, taxable-equivalent basis - continuing operations	E 955	920	2,815	2,705
Non-interest income (GAAP)	F 519	482	1,538	1,446
Significant items:				
Securities (gains) losses, net	—	(8 )	(1 )	(9 )
Leveraged lease termination gains	(4 )	(1 )	(8 )	(1 )
Gain on sale of affordable housing residential mortgage loans <sup>(2)</sup>	—	—	—	(5 )
Adjusted non-interest income (non-GAAP)	G \$515	\$473	\$1,529	\$1,431
Total revenue, taxable-equivalent basis	E+F=H \$1,474	\$1,402	\$4,353	\$4,151
Adjusted total revenue, taxable-equivalent basis (non-GAAP)	E+G=I \$1,470	\$1,393	\$4,344	\$4,136
Efficiency ratio (GAAP)	C/H 62.59 %	60.88 %	62.42 %	61.95 %
Adjusted efficiency ratio (non-GAAP)	D/I 58.05 %	60.84 %	59.65 %	61.68 %
Fee income ratio (GAAP)	F/H 35.19 %	34.30 %	35.33 %	34.83 %
Adjusted fee income ratio (non-GAAP)	G/I 35.03 %	33.89 %	35.20 %	34.59 %
<b>RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS' EQUITY — CONSOLIDATED</b>				
Average stockholders' equity (GAAP)	\$15,401	\$16,790	\$15,642	\$16,748
Less: Average intangible assets (GAAP)	4,955	5,097	5,032	5,108
Average deferred tax liability related to intangibles (GAAP)	(97 )	(155 )	(98 )	(155 )
Average preferred stock (GAAP)	820	820	820	820
Average tangible common stockholders' equity (non-GAAP)	J \$9,723	\$11,028	\$9,888	\$10,975
Return on average tangible common stockholders' equity (non-GAAP) <sup>(3)</sup>	A/J 22.36 %	10.62 %	17.65 %	10.72 %
<b>RETURN ON AVERAGE TANGIBLE COMMON STOCKHOLDERS' EQUITY — CONTINUING OPERATIONS</b>				
Average stockholders' equity (GAAP) <sup>(4)</sup>	\$15,401	\$16,790	\$15,642	\$16,748

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Less: Average intangible assets (GAAP) <sup>(4)</sup>		4,955		5,097		5,032		5,108	
Average deferred tax liability related to intangibles (GAAP) <sup>(4)</sup>		(97	)	(155	)	(98	)	(155	)
Average preferred stock (GAAP) <sup>(4)</sup>		820		820		820		820	
Average tangible common stockholders' equity (non-GAAP)	K	\$9,723		\$11,028		\$9,888		\$10,975	
Return on average tangible common stockholders' equity (non-GAAP) <sup>(3)</sup>	B/K	14.42	%	10.61	%	15.06	%	10.63	%

81

---

Table of Contents

	September 30, 2018	December 31, 2017	
	(Dollars in millions, except per share data)		
<b>TANGIBLE COMMON RATIOS — CONSOLIDATED</b>			
Ending stockholders' equity (GAAP)	\$ 14,770	\$ 16,192	
Less: Ending intangible assets (GAAP)	4,951	5,081	
Ending deferred tax liability related to intangibles (GAAP)	(95 )	(99 )	
Ending preferred stock (GAAP)	820	820	
Ending tangible common stockholders' equity (non-GAAP)	L \$ 9,094	\$ 10,390	
Ending total assets (GAAP)	\$ 124,578	\$ 124,294	
Less: Ending intangible assets (GAAP)	4,951	5,081	
Ending deferred tax liability related to intangibles (GAAP)	(95 )	(99 )	
Ending tangible assets (non-GAAP)	M \$ 119,722	\$ 119,312	
End of period shares outstanding	N 1,055	1,134	
Tangible common stockholders' equity to tangible assets (non-GAAP)	L/M 7.60	% 8.71	%
Tangible common book value per share (non-GAAP)	L/N \$ 8.62	\$ 9.16	

	September 30, 2018	December 31, 2017	
	(Dollars in millions, except per share data)		
<b>BASEL III COMMON EQUITY TIER 1 RATIO—FULLY PHASED-IN PRO-FORMA</b>			
(5)			
Stockholders' equity (GAAP)	\$ 14,770	\$ 16,192	
Non-qualifying goodwill and intangibles	(4,845 )	(4,972 )	
Adjustments, including all components of accumulated other comprehensive income, disallowed deferred tax assets, threshold deductions and other adjustments	1,376	712	
Preferred stock (GAAP)	(820 )	(820 )	
Basel III common equity Tier 1—Fully Phased-In Pro-Forma (non-GAAP)	O \$ 10,481	\$ 11,112	
Basel III risk-weighted assets—Fully Phased-In Pro-Forma (non-GAAP) <sup>(6)</sup>	P \$ 103,721	\$ 101,498	
Basel III common equity Tier 1 ratio—Fully Phased-In Pro-Forma (non-GAAP)	O/P 10.11	% 10.95	%

(1) Adjustments to average loan balances assume a simple day-weighted average impact for the first nine months of 2018, and are equal to the ending balance of the residential first mortgage loans sold for the prior periods.

In the fourth quarter of 2016, the Company sold affordable housing residential mortgage loans to Freddie Mac.

(2) Approximately \$91 million were sold with recourse, resulting in a deferred gain of \$5 million, which was recognized during the second quarter of 2017.

(3) Income statement amounts have been annualized in calculation.

(4) Due to the immaterial impact of the discontinued operations, the balance sheet has not been presented on a continuing operations basis.

(5) Current quarter amounts and the resulting ratio are estimated.

Regions continues to develop systems and internal controls to precisely calculate risk-weighted assets as required

(6) by Basel III on a fully phased-in basis. The amounts included above are a reasonable approximation, based on current understanding of the requirements.



Table of Contents

## OPERATING RESULTS

## NET INTEREST INCOME AND MARGIN

Table 17—Consolidated Average Daily Balances and Yield/Rate Analysis

	Three Months Ended September 30					
	2018			2017		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
(Dollars in millions; yields on taxable-equivalent basis)						
<b>Assets</b>						
<b>Earning assets:</b>						
Debt securities—taxable	\$24,198	\$ 156	2.56%	\$25,039	\$ 149	2.34%
Loans held for sale	386	4	4.14	416	3	3.10
Loans, net of unearned income <sup>(1)(2)</sup>	81,022	932	4.56	79,585	850	4.23
Investment in operating leases, net	410	3	3.33	586	3	2.84
Other earning assets	2,440	17	2.87	3,146	13	1.60
Total earning assets	108,456	1,112	4.07	108,772	1,018	3.72
Allowance for loan losses	(834 )			(1,048 )		
Cash and due from banks	2,036			1,867		
Other non-earning assets	13,868			13,842		
	\$123,526			\$123,433		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities:</b>						
Savings	\$8,928	4	0.15	\$8,346	3	0.15
Interest-bearing checking	18,924	21	0.44	18,741	11	0.22
Money market	24,046	22	0.37	26,325	13	0.19
Time deposits	6,630	17	1.06	6,929	15	0.88
Total interest-bearing deposits <sup>(3)</sup>	58,528	64	0.44	60,341	42	0.28
Federal funds purchased and securities sold under agreements to repurchase	154	—	—	—	—	—
Other short-term borrowings	1,480	8	2.07	655	2	1.19
Long-term borrowings	10,429	84	3.14	6,691	53	3.14
Total interest-bearing liabilities	70,591	156	0.88	67,687	97	0.57
Non-interest-bearing deposits <sup>(3)</sup>	35,414	—	—	36,522	—	—
Total funding sources	106,005	156	0.58	104,209	97	0.37
Net interest spread			3.19			3.15
Other liabilities	2,120			2,440		
Stockholders' equity	15,401			16,784		
	\$123,526			\$123,433		
Net interest income and other financing income/margin on a taxable-equivalent basis <sup>(4)</sup>		\$ 956	3.50%		\$ 921	3.36%

(1) Loans, net of unearned income include non-accrual loans for all periods presented.

(2) Interest income includes net loan fees of \$3 million and \$5 million for the three months ended September 30, 2018 and 2017, respectively.

Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing (3) deposits and non-interest-bearing deposits. The rates for total deposit costs equal 0.27% and 0.17% for the three months ended September 30, 2018 and 2017, respectively.

(4)

The computation of taxable-equivalent net interest income and other financing income is based on the statutory federal income tax rate of 21% and 35% for September 30, 2018 and 2017, respectively, adjusted for applicable state income taxes net of the related federal tax benefit.

Table of Contents

	Nine Months Ended September 30					
	2018			2017		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
	(Dollars in millions; yields on taxable-equivalent basis)					
<b>Assets</b>						
<b>Earning assets:</b>						
Federal funds sold and securities purchased under agreements to resell	\$—	\$—	— %	\$1	\$—	— %
Debt securities—taxable	24,389	466	2.55	25,005	446	2.38
Loans held for sale	378	11	3.87	488	11	3.17
Loans, net of unearned income <sup>(1)(2)</sup>	80,294	2,689	4.46	79,956	2,468	4.11
Investment in operating leases, net	440	11	3.24	632	14	3.00
Other earning assets	2,616	53	2.73	3,252	38	1.50
Total earning assets	108,117	3,230	3.98	109,334	2,977	3.62
Allowance for loan losses	(871 )			(1,070 )		
Cash and due from banks	1,980			1,874		
Other non-earning assets	14,101			13,886		
	\$123,327			\$124,024		
<b>Liabilities and Stockholders' Equity</b>						
<b>Interest-bearing liabilities:</b>						
Savings	\$8,842	11	0.16	\$8,253	10	0.15
Interest-bearing checking	19,461	55	0.38	19,305	27	0.19
Money market	24,292	55	0.30	26,751	32	0.16
Time deposits	6,711	49	0.98	7,026	45	0.86
Total interest-bearing deposits <sup>(3)</sup>	59,306	170	0.38	61,335	114	0.25
Federal funds purchased and securities sold under agreements to repurchase	100	1	1.75	—	—	—
Other short-term borrowings	937	14	1.96	457	4	1.02
Long-term borrowings	9,571	229	3.16	6,964	153	2.92
Total interest-bearing liabilities	69,914	414	0.79	68,756	271	0.53
Non-interest-bearing deposits <sup>(3)</sup>	35,563	—	—	36,100	—	—
Total funding sources	105,477	414	0.52	104,856	271	0.34
Net interest spread			3.19			3.09
Other liabilities	2,208			2,424		
Stockholders' equity	15,642			16,744		
	\$123,327			\$124,024		
Net interest income and other financing income/margin on a taxable-equivalent basis <sup>(4)</sup>		\$ 2,816	3.48 %		\$ 2,706	3.31 %

(1) Loans, net of unearned income include non-accrual loans for all periods presented.

(2) Interest income includes net loan fees of \$14 million and \$16 million for the nine months ended September 30, 2018 and 2017, respectively.

Total deposit costs may be calculated by dividing total interest expense on deposits by the sum of interest-bearing (3) deposits and non-interest-bearing deposits. The rates for total deposit costs equal 0.24% and 0.16% for the nine months ended September 30, 2018 and 2017, respectively.

(4) The computation of taxable-equivalent net interest income and other financing income is based on the statutory federal income tax rate of 21% and 35% for September 30, 2018 and 2017, respectively, adjusted for applicable



state income taxes net of the related federal tax benefit.

For the third quarter of 2018, net interest income and other financing income (taxable-equivalent basis) totaled \$956 million compared to \$921 million in the third quarter of 2017. The net interest margin (taxable-equivalent basis) was 3.50 percent for the third quarter of 2018 and 3.36 percent for the third quarter of 2017. Net interest income and other financing income (taxable-equivalent basis) totaled \$2.8 billion and \$2.7 billion for the first nine months of 2018 and 2017, respectively. The net interest margin (taxable-equivalent basis) was 3.48 percent and 3.31 percent for the first nine months of 2018 and 2017, respectively. The increase in net interest margin (taxable-equivalent basis) for the third quarter and first nine months of 2018, compared to the same periods of 2017, was primarily due to higher market interest rates and higher average loan balances partially offset by wholesale funding costs.

84

---

Table of Contents

Based on recent performance and market conditions, the Company updated its expectations in the third quarter of 2018. Management now expects to increase adjusted net interest income and other financing income (non-GAAP and non-taxable equivalent) in the range of 5 to 6 percent on a full year basis in 2018.

**MARKET RISK—INTEREST RATE RISK**

Regions' primary market risk is interest rate risk. This includes uncertainty with respect to absolute interest rate levels as well as relative interest rate levels, which are impacted by both the shape and the slope of the various yield curves that affect the financial products and services that the Company offers. To quantify this risk, Regions measures the change in its net interest income and other financing income in various interest rate scenarios compared to a base case scenario. Net interest income and other financing income sensitivity to market rate movements is a useful short-term indicator of Regions' interest rate risk.

Sensitivity Measurement—Financial simulation models are Regions' primary tools used to measure interest rate exposure. Using a wide range of sophisticated simulation techniques provides management with extensive information on the potential impact to net interest income and other financing income caused by changes in interest rates. Models are structured to simulate cash flows and accrual characteristics of Regions' balance sheet. Assumptions are made about the direction and volatility of interest rates, the slope of the yield curve, and the changing composition of the balance sheet that results from both strategic plans and from customer behavior. Among the assumptions are expectations of balance sheet growth and composition, the pricing and maturity characteristics of existing business and the characteristics of future business. Interest rate-related risks are expressly considered, such as pricing spreads, the pricing of deposit accounts, prepayments and other option risks. Regions considers these factors, as well as the degree of certainty or uncertainty surrounding their future behavior.

The primary objective of asset/liability management at Regions is to coordinate balance sheet composition with interest rate risk management to sustain reasonable and stable net interest income and other financing income throughout various interest rate cycles. In computing interest rate sensitivity for measurement, Regions compares a set of alternative interest rate scenarios to the results of a base case scenario derived using "market forward rates." The standard set of interest rate scenarios includes the traditional instantaneous parallel rate shifts of plus 100 and 200 basis points. While not presented, up-rate scenarios of greater magnitude are also analyzed. Larger magnitude down-rate scenarios continue to be of limited use in the current rate environment. Therefore, Regions presents a minus 100 basis point rate shock as its largest meaningful falling rate scenario. In addition to parallel curve shifts, multiple curve steepening and flattening scenarios are contemplated. Regions includes simulations of gradual interest rate movements phased in over a six-month period that may more realistically mimic the speed of potential interest rate movements.

Exposure to Interest Rate Movements—As of September 30, 2018, Regions was asset sensitive to both gradual and instantaneous parallel yield curve shifts as compared to the base case for the measurement horizon ending September 2019. The estimated exposure associated with the parallel yield curve shift of minus 100 basis points in the table below reflects the combined impacts of movements in short-term and long-term interest rates. The decline in short-term interest rates (such as the Fed Funds rate, the rate of Interest on Excess Reserves and 1 month LIBOR) will lead to a reduction of yield on assets and liabilities contractually tied to such rates. Recent Fed Funds increases have not resulted in a meaningful increase in deposit costs for Regions. Therefore, it is expected that declines in deposit costs will only partially offset the decline in asset yields. A reduction in intermediate and long-term interest rates (such as intermediate to longer-term U.S. Treasuries, swap and mortgage rates) will drive yields lower on certain fixed rate, newly originated or renewed loans, reduce prospective yields on certain investment portfolio purchases, and increase amortization of premium expense on existing securities in the investment portfolio. At current rate levels, the interest income sensitivity afforded by potential further extension of investment securities and the resulting impact on premium amortization is reduced, making intermediate and long-term interest rate sensitivity primarily attributable to changes in the level of reinvestment yields on fixed rate assets.

With respect to sensitivity along the yield curve, the balance sheet is estimated to be asset sensitive to short-term, intermediate-term, and long-term rates individually. Current simulation models estimate that, as compared to the base

case, net interest income and other financing income over a 12 month horizon would respond favorably by approximately \$77 million if intermediate and longer-term interest rates were to immediately and on a sustained basis exceed the base scenario by 100 basis points. Conversely, if intermediate and longer-term interest rates were to immediately and on a sustained basis underperform the base case by 100 basis points, then net interest income and other financing income, as compared to the base case, would decline by approximately \$97 million.

The table below summarizes Regions' positioning in various parallel yield curve shifts (i.e., including all yield curve tenors). The scenarios are inclusive of all interest rate risk hedging activities. Forward starting hedges that have been transacted are contemplated to the extent they start within the measurement horizon.

85

---

Table of Contents

Table 18—Interest Rate Sensitivity

	Estimated Annual Change in Net Interest Income September 30, 2018 (In millions)
Gradual Change in Interest Rates	
+ 200 basis points	\$171
+ 100 basis points	94
- 100 basis points	(112 )
Instantaneous Change in Interest Rates	
+ 200 basis points	\$157
+ 100 basis points	98
- 100 basis points	(157 )

As discussed above, the interest rate sensitivity analysis presented in Table 18 is informed by a variety of assumptions and estimates regarding the course of the balance sheet in both the baseline scenario as well as the scenarios of instantaneous and gradual shifts in the yield curve. Though there are many assumptions that affect the estimates for net interest income and other financing income, those pertaining to deposit pricing, deposit mix and overall balance sheet composition are particularly impactful. Given the uncertainties associated with the prolonged period of low interest rates, management evaluates the impact to its sensitivity analysis of these key assumptions. Sensitivity calculations are hypothetical and should not be considered to be predictive of future results.

The Company's baseline balance sheet growth assumptions include moderate loan and deposit growth reflecting management's best estimate. The behavior of deposits in response to changes in interest rate levels is largely informed by analyses of prior rate cycles, but with suitable adjustments based on management's expectations in the current rate environment. In the +200 basis point gradual interest rate change scenario in Table 18, the total cumulative interest bearing deposit re-pricing sensitivity is expected to be approximately 60 percent of changes in short-term market rates (e.g., Fed Funds), as compared to approximately 55 percent in the 2004 to 2007 historical timeframe. Recently observed market rate movements have yielded higher levels of asset sensitivity than modeled due primarily to outperformance in deposit betas as compared to the model assumption. A 5 percentage point lower sensitivity than the 60 percent baseline would increase 12 month net interest income and other financing income in the gradual +200 basis points scenario by approximately \$60 million. While the estimates should be used as a guide, differences may result driven by the pace of rate changes, and other market and competitive factors.

Similarly, management assumes that the change in the mix of deposits in a rising rate environment versus the baseline balance sheet growth assumptions is informed by analyses of prior rate cycles. Management assumes that in rising rate scenarios, some shift from non-interest bearing to interest-bearing products will occur. The magnitude of the shift is rate dependent, but equates to approximately \$3.5 billion over 12 months in the gradual +200 basis point scenario in Table 18. In the event this shift increased by an additional \$3.0 billion over 12 months, the result would be a reduction of 12 month net interest income and other financing income in the gradual +200 basis points scenario by approximately \$32 million.

Interest rate movements may also have an impact on the value of Regions' securities portfolio, which can directly impact the carrying value of stockholders' equity. Regions from time to time may hedge these price movements with derivatives (as discussed below).

Derivatives—Regions uses financial derivative instruments for management of interest rate sensitivity. ALCO, which consists of members of Regions' senior management team, in its oversight role for the management of interest rate sensitivity, approves the use of derivatives in balance sheet hedging strategies. Derivatives are also used to offset the risks associated with customer derivatives, which include interest rate, credit and foreign exchange risks. The most common derivatives Regions employs are forward rate contracts, Eurodollar futures contracts, interest rate swaps, options on interest rate swaps, interest rate caps and floors, and forward sale commitments.

Forward rate contracts are commitments to buy or sell financial instruments at a future date at a specified price or yield. A Eurodollar futures contract is a future on a Eurodollar deposit. Eurodollar futures contracts subject Regions to market risk associated with changes in interest rates. Because futures contracts are cash settled daily, there is minimal credit risk associated with Eurodollar futures. Interest rate swaps are contractual agreements typically entered into to exchange fixed for variable (or vice versa) streams of interest payments. The notional principal is not exchanged but is used as a reference for the size of interest settlements. Interest rate options are contracts that allow the buyer to purchase or sell a financial instrument at a predetermined price and time. Forward sale commitments are contractual obligations to sell market instruments at a future date for an already agreed-upon price. Foreign currency contracts involve the exchange of one currency for another on a specified date and at a specified rate. These contracts

Table of Contents

are executed on behalf of the Company's customers and are used by customers to manage fluctuations in foreign exchange rates. The Company is subject to the credit risk that another party will fail to perform. Regions has made use of interest rate swaps and floors in balance sheet hedging strategies to effectively convert a portion of its fixed-rate funding position and available for sale securities portfolios to a variable-rate position and to effectively convert a portion of its variable-rate loan portfolios to fixed-rate. Regions also uses derivatives to economically manage interest rate and pricing risk associated with its mortgage origination business. In the period of time that elapses between the origination and sale of mortgage loans, changes in interest rates have the potential to cause a decline in the value of the loans in this held-for-sale portfolio. Futures contracts and forward sale commitments are used to protect the value of the loan pipeline and loans held for sale from changes in interest rates and pricing.

The following table presents additional information about the hedging interest rate derivatives used by Regions to manage interest rate risk:

Table 19—Hedging Derivatives by Interest Rate Risk Management Strategy

	September 30, 2018					
	Weighted-Average					
	Notional Amount	Maturity (Years)	Receive Rate	Pay Rate	Strike Price	
	(Dollars in millions)					
Derivatives in fair value hedging relationships:						
Receive fixed/pay variable swaps	\$3,150	3.2	1.8 %	2.2 %	— %	
Receive variable/pay fixed swaps	81	5.1	2.2	2.4	—	
Derivatives in cash flow hedging relationships:						
Receive fixed/pay variable swaps	7,000	5.9	1.9	2.4	—	
Interest rate floors	2,000	6.1	—	—	2.3	
Total derivatives designated as hedging instruments	\$12,231	5.2	1.9 %	2.3 %	2.3 %	

Subsequent to September 30, 2018, the Company executed certain transactions affecting the total notional amount of its derivatives designated for interest rate hedging. In particular, these transactions increased the total notional amount within interest rate swaps for cash flow hedging derivatives by approximately \$1.0 billion.

A portion of the cash flow hedging relationships designated above in Table 19 are forward starting, and therefore do not impact, or have limited impact to the estimated annual change in net interest income discussed in Table 18.

Regions manages the credit risk of these instruments in much the same way as it manages credit risk of the loan portfolios by establishing credit limits for each counterparty and through collateral agreements for dealer transactions. For non-dealer transactions, the need for collateral is evaluated on an individual transaction basis and is primarily dependent on the financial strength of the counterparty. Credit risk is also reduced significantly by entering into legally enforceable master netting agreements. When there is more than one transaction with a counterparty and there is a legally enforceable master netting agreement in place, the exposure represents the net of the gain and loss positions with and collateral received from and/or posted to that counterparty. All interest rate swap derivatives traded by Regions are subject to mandatory clearing. The counterparty risk for cleared trades effectively moves from the executing broker to the clearinghouse allowing Regions to benefit from the risk mitigation controls in place at the respective clearinghouse. The "Credit Risk" section in Regions' Annual Report on Form 10-K for the year ended December 31, 2017 contains more information on the management of credit risk.

Regions also uses derivatives to meet the needs of its customers. Interest rate swaps, interest rate options and foreign exchange forwards are the most common derivatives sold to customers. Other derivative instruments with similar characteristics are used to hedge market risk and minimize volatility associated with this portfolio. Instruments used to service customers are held in the trading account, with changes in value recorded in the consolidated statements of income.

The primary objective of Regions' hedging strategies is to mitigate the impact of interest rate changes, from an economic perspective, on net interest income and other financing income and the net present value of its balance

sheet. The overall effectiveness of these hedging strategies is subject to market conditions, the quality of Regions' execution, the accuracy of its valuation assumptions, counterparty credit risk and changes in interest rates. See Note 10 "Derivative Financial Instruments and Hedging Activities" to the consolidated financial statements for a tabular summary of Regions' quarter-end derivatives positions and further discussion.

Regions accounts for residential MSRs at fair market value with any changes to fair value being recorded within mortgage income. Regions enters into derivative and balance sheet transactions to economically mitigate the impact of market value fluctuations related to residential MSRs. Derivative instruments entered into in the future could be materially different from the current risk profile of Regions' current portfolio.

87

---

Table of Contents**MARKET RISK—PREPAYMENT RISK**

Regions, like most financial institutions, is subject to changing prepayment speeds on mortgage-related assets under different interest rate environments. Prepayment risk is a significant risk to earnings and specifically to net interest income and other financing income. For example, mortgage loans and other financial assets may be prepaid by a debtor, so that the debtor may refinance its obligations at lower rates. As loans and other financial assets prepay in a falling rate environment, Regions must reinvest these funds in lower-yielding assets. Prepayments of assets carrying higher rates reduce Regions' interest income and overall asset yields. Conversely, in a rising rate environment, these assets will prepay at a slower rate, resulting in opportunity cost by not having the cash flow to reinvest at higher rates. Prepayment risk can also impact the value of securities and the carrying value of equity. Regions' greatest exposures to prepayment risks primarily rest in its mortgage-backed securities portfolio, the mortgage fixed-rate loan portfolio and the residential MSR, all of which tend to be sensitive to interest rate movements. Each of these assets is also exposed to prepayment risk due to factors which are not necessarily the result of interest rates, but rather due to changes in policies or programs related, either directly or indirectly, to the U.S. Government's governance over certain lending and financing within the mortgage market. Such policies can work to either encourage or discourage financing dynamics and represent a risk that is extremely difficult to forecast and may be the result of non-economic factors. The Company attempts to monitor and manage such exposures within reasonable expectations while acknowledging all such risks cannot be foreseen or avoided. Further, Regions has prepayment risk that would be reflected in non-interest income in the form of servicing income on the residential MSR. Regions actively monitors prepayment exposure as part of its overall net interest income and other financing income forecasting and interest rate risk management.

**LIQUIDITY RISK**

Liquidity is an important factor in the financial condition of Regions and affects Regions' ability to meet the borrowing needs and deposit withdrawal requirements of its customers. The liquidity coverage ratio rule is designed to ensure that financial institutions have the necessary assets on hand to withstand short-term liquidity disruptions. See the "Liquidity Coverage Ratio" discussion included in the "Regulatory Requirements" section of Management's Discussion and Analysis for additional information.

Regions intends to fund its obligations primarily through cash generated from normal operations. Regions also has obligations related to potential litigation contingencies. See Note 13 "Commitments, Contingencies and Guarantees" to the consolidated financial statements for additional discussion of the Company's funding requirements.

Assets, consisting principally of loans and securities, are funded by customer deposits, borrowed funds and stockholders' equity. Regions' goal in liquidity management is to satisfy the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's cash flow needs. Having and using various sources of liquidity to satisfy the Company's funding requirements is important.

In order to ensure an appropriate level of liquidity is maintained, Regions performs specific procedures including scenario analyses and stress testing at the bank, holding company, and affiliate levels. Regions' liquidity policy requires the holding company to maintain cash sufficient to cover the greater of (1) 18 months of debt service and other cash needs or (2) a minimum cash balance of \$500 million. Cash and cash equivalents at the holding company totaled \$1.6 billion at September 30, 2018. Compliance with the holding company cash requirements is reported to the Risk Committee of the Board on a quarterly basis. Regions also has minimum liquidity requirements for the Bank and subsidiaries. The Bank's funding and contingency planning does not currently include any reliance on short-term unsecured sources. Risk limits are established within the Company's Liquidity Risk Oversight Committee and ALCO, which regularly reviews compliance with the established limits.

The securities portfolio is one of Regions' primary sources of liquidity. Proceeds from maturities and principal and interest payments of securities provide a constant flow of funds available for cash needs (see Note 3 "Debt Securities" to the consolidated financial statements). The agency guaranteed mortgage-backed securities portfolio is another source of liquidity in various secured borrowing capacities.

Maturities in the loan portfolio also provide a steady flow of funds. Additional funds are provided from payments on consumer loans and one-to-four family residential first mortgage loans. Regions' liquidity is further enhanced by its



relatively stable customer deposit base. Liquidity needs can also be met by borrowing funds in state and national money markets, although Regions does not currently rely on short-term unsecured wholesale market funding. The balance with the FRB is the primary component of the balance sheet line item, “interest-bearing deposits in other banks.” At September 30, 2018, Regions had approximately \$1.6 billion in cash on deposit with the FRB, a decrease from approximately \$1.9 billion at December 31, 2017.

Regions’ borrowing availability with the FRB as of September 30, 2018, based on assets pledged as collateral on that date, was \$18.5 billion.

Regions’ financing arrangement with the FHLB adds additional flexibility in managing the Company's liquidity position. As of September 30, 2018, Regions’ outstanding balance of FHLB borrowings was \$9.0 billion and its total borrowing capacity from the FHLB totaled \$17.5 billion. FHLB borrowing capacity is contingent on the amount of collateral pledged to the FHLB. Regions Bank pledged certain securities, commercial and real estate mortgage loans, residential first mortgage loans on one-to-

Table of Contents

four family dwellings and home equity lines of credit as collateral for the FHLB advances outstanding. Additionally, investment in FHLB stock is required in relation to the level of outstanding borrowings. Refer to Note 8 "Other Earning Assets" to the consolidated financial statements in the 2017 Annual Report on Form 10-K for additional information. The FHLB has been and is expected to continue to be a reliable and economical source of funding. Regions maintains a shelf registration statement with the SEC that can be utilized by Regions to issue various debt and/or equity securities. Regions may also issue bank notes from time to time, either as part of a bank note program or as stand-alone issuances. Refer to Note 13 "Long-Term Borrowings" to the consolidated financial statements in the 2017 Annual Report on Form 10-K for additional information.

Regions may, from time to time, consider opportunistically retiring outstanding issued securities, including subordinated debt in privately negotiated or open market transactions for cash or common shares. Regulatory approval would be required for retirement of some instruments.

**CREDIT RISK**

Regions' objective regarding credit risk is to maintain a credit portfolio that provides for stable credit costs with acceptable volatility through an economic cycle. Regions has a diversified loan portfolio in terms of product type, collateral and geography. See Table 2 for further details of each loan portfolio segment. See the "Portfolio Characteristics" section of the Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of risk characteristics of each loan type.

**INFORMATION SECURITY RISK**

Regions faces a variety of operational risks, including information security risks. Information security risks, such as evolving and adaptive cyber attacks that are conducted regularly against Regions and other large financial institutions to compromise or disable information systems, have generally increased in recent years. This trend is expected to continue for a number of reasons, including the proliferation of new technologies, the increasing use of mobile devices and cloud technologies, the ability to conduct more financial transactions online, and the increasing sophistication and activities of organized crime, hackers, terrorists, nation-states, activists and other external parties or fraud on the part of employees.

Regions devotes significant financial and non-financial resources to identify and mitigate threats to the confidentiality, availability and integrity of its information systems. Regions regularly assesses the threats and vulnerabilities to its environment so it can update and maintain its systems and controls to effectively mitigate these risks. Layered security controls are designed to complement each other to protect customer information and transactions. Regions regularly tests its control environment utilizing practices such as penetration testing and more targeted assessments to ensure its controls are working as expected. Regions will continue to commit the resources necessary to mitigate these growing cyber risks, as well as continue to develop and enhance controls, processes and technology to protect its systems from attacks or unauthorized access. In addition, Regions maintains a strong commitment to a comprehensive risk management program that includes oversight of third-party relationships with vendors.

The Board is actively engaged in the oversight of Regions' continuous efforts to reinforce and enhance its operational resilience. The Board monitors Regions' information management risk policies and practices primarily through its Risk Committee, which oversees areas of operational risk such as information technology activities; risks associated with development, infrastructure, and cybersecurity; approval and oversight of information security risk assessments, strategies, policies and programs; and disaster recovery, business continuity, and incident response plans.

Additionally, the Board's Audit Committee regularly reviews Regions' cybersecurity practices, mainly by receiving reports on the cybersecurity management program prepared by the Chief Information Security Officer, risk management, and Internal Audit. The Board, through its various committees, is briefed at least quarterly on information security matters.

Regions participates in information sharing organizations such as FS-ISAC, to gather and share information with peer banks and other financial institutions to better prepare and protect its information systems from attack. FS-ISAC is a nonprofit organization whose objective is to protect the financial services sector against cyber and physical threats and risk. It acts as a trusted third party that provides anonymity to allow members to submit threat, vulnerability and incident information in a non-attributable and trusted manner so information that would normally not be shared is

instead made available to other members for the greater good of the membership. In addition to FS-ISAC, Regions is a member of BITS. BITS serves the financial community and its members by providing industry best practices on a variety of security and fraud topics.

Regions has contracts with vendors to provide denial of service mitigation. These vendors have also committed the necessary resources to support Regions in the event of a cyber event. Even though Regions devotes significant resources to combat cyber security risks, there is no guarantee that these measures will provide absolute security. As an additional security measure, Regions has engaged a computer forensics firm and an industry-leading consulting firm on retainer in case of a cyber event. Regions has also developed and maintains robust business continuity and disaster recovery plans that it could implement in the event of a cyber event so as to mitigate the effects of any such event. Some of Regions' exposure with respect to data breaches may be offset by applicable insurance.

Even if Regions successfully prevents cyber attacks on to its own network, the Company may still incur losses that result from customers' account information obtained through breaches of retailers' networks where customers have transacted business.

Table of Contents

The fraud losses, as well as the costs of investigations and re-issuing new customer cards, may impact Regions' financial results. In addition, Regions also relies on some vendors to provide certain components of its business infrastructure, and although Regions actively assesses and monitors the information security capabilities of these vendors, Regions' reliance on them may also increase exposure to information security risk.

In the event of a cyber attack or other data breach, Regions may be required to incur significant expenses, including with respect to remediation costs, costs of implementing additional preventative measures, addressing any reputational harm and addressing any related regulatory inquiries or civil litigation arising from the event.

**PROVISION FOR LOAN LOSSES**

The provision for loan losses is used to maintain the allowance for loan losses at a level that in management's judgment is appropriate to absorb probable losses inherent in the portfolio at the balance sheet date. The provision for loan losses totaled \$84 million in the third quarter of 2018 compared to \$76 million during the third quarter of 2017. The provision for loan losses totaled \$134 million for the first nine months of 2018 compared to \$194 million for the first nine months of 2017. Refer to the "Allowance for Credit Losses" section of Management's Discussion and Analysis for further detail.

**NON-INTEREST INCOME**

Table 20—Non-Interest Income from Continuing Operations

	Three Months Ended September 30		Quarter-to-Date Change 9/30/2018 vs. 9/30/2017		
	2018	2017	Amount	Percent	
	(Dollars in millions)				
Service charges on deposit accounts	\$179	\$175	\$4	2.3	%
Card and ATM fees	111	103	8	7.8	%
Investment management and trust income	59	58	1	1.7	%
Capital markets income	45	35	10	28.6	%
Mortgage income	32	32	—	NM	
Bank-owned life insurance	18	20	(2)	(10.0)	%
Commercial credit fee income	18	17	1	5.9	%
Investment services fee income	18	15	3	20.0	%
Securities gains, net	—	8	(8)	(100.0)	%
Market value adjustments on employee benefit assets	7	3	4	133.3	%
Other miscellaneous income	32	16	16	100.0	%
	\$519	\$482	\$37	7.7	%
	Nine Months Ended September 30		Year-to-Date Change 9/30/2018 vs. 9/30/2017		
	2018	2017	Amount	Percent	
	(Dollars in millions)				
Service charges on deposit accounts	\$525	\$512	\$13	2.5	%
Card and ATM fees	327	311	16	5.1	%
Investment management and trust income	175	171	4	2.3	%
Capital markets income	152	105	47	44.8	%
Mortgage income	107	113	(6)	(5.3)	%
Bank-owned life insurance	53	61	(8)	(13.1)	%
Commercial credit fee income	52	53	(1)	(1.9)	%

Edgar Filing: REGIONS FINANCIAL CORP - Form 10-Q

Investment services fee income	54	46	8	17.4	%
Securities gains, net	1	9	(8 )	(88.9)	%
Market value adjustments on employee benefit assets	4	10	(6 )	(60.0)	%
Other miscellaneous income	88	55	33	60.0	%
	\$1,538	\$1,446	\$92	6.4	%

\_\_\_\_\_  
 NM - Not Meaningful

90

---

Table of Contents

Service charges on deposit accounts—Service charges on deposit accounts include non-sufficient fund fees and other service charges. The increases during the third quarter of 2018 and the first nine months of 2018 compared to the same periods of 2017 were primarily due to continued customer account growth and increases in non-sufficient fund activity.

Card and ATM fees—Card and ATM fees include the combined amounts of credit card/bank card income and debit card and ATM related revenue. The increases in the third quarter of 2018 and first nine months of 2018 compared to the same periods of 2017 were primarily the result of an increase in commercial and consumer checkcard interchange income associated with new account growth and increases in transactions.

Capital markets income—Capital markets income primarily relates to capital raising activities that includes securities underwriting and placement, loan syndication and placement, as well as foreign exchange, derivatives, merger and acquisition and other advisory fees. The increases in the third quarter of 2018 and the first nine months of 2018 compared to the same periods in 2017 were primarily due to increases in income from mergers and acquisitions advisory fees, customer interest rate swap income, loan syndication fees, and fees generated from securities underwriting and placement.

Bank-owned life insurance—Bank-owned life insurance decreased in the first nine months of 2018 compared to the same period in 2017 primarily due to reduced claims benefits.

Investment services fee income—Investment services fee income represents income earned through investment advisory services, the primary revenue streams of which include sales of annuity and brokerage products. Investment services fee income increased during the third quarter of 2018 and the first nine months of 2018 compared to the same periods of 2017 primarily due to improved productivity as a result of hiring additional financial advisors.

Securities gains, net—Net securities gains primarily result from the Company's asset/liability management process, as well as the sale of certain securities held for employee benefit purposes in 2017.

Market value adjustments on employee benefit assets—Market value adjustments on employee benefit assets are the reflection of market value variations related to assets held for certain employee benefits. These adjustments are offset in salaries and benefits expense.

Other miscellaneous income—Other miscellaneous income includes net revenue from affordable housing, fees from safe deposit boxes, check fees, and other miscellaneous income. Net revenue from affordable housing includes actual gains and losses resulting from the sale of affordable housing investments, cash distributions from the investments and any related impairment charges. Other miscellaneous income increased in the third quarter of 2018 and the first nine months of 2018 compared to the same periods of 2017 primarily due to increases in the value of equity investments, net gains associated with the sale of certain low income housing tax credit investments, and leveraged lease termination gains. Also contributing to the increases for both the quarter and year-to-date periods were decreases in net impairment charges related to certain operating lease assets.

Table of Contents

## NON-INTEREST EXPENSE

Table 21—Non-Interest Expense from Continuing Operations

	Three Months Ended September 30	2018	2017	Quarter-to-Date Change 9/30/2018 vs 9/30/2017	Amount	Percent
					(Dollars in millions)	
Salaries and employee benefits	\$473	\$464	\$9	1.9		%
Net occupancy expense	82	89	(7)	(7.9)		%
Furniture and equipment expense	81	83	(2)	(2.4)		%
Outside services	46	41	5	12.2		%
FDIC insurance assessments	22	28	(6)	(21.4)		%
Professional, legal and regulatory expenses	32	21	11	52.4		%
Marketing	20	24	(4)	(16.7)		%
Credit/checkcard expenses	18	13	5	38.5		%
Branch consolidation, property and equipment charges	4	5	(1)	(20.0)		%
Visa class B shares expense	—	4	(4)	(100.0)		%
Provision (credit) for unfunded credit losses	2	(8)	10	(125.0)		%
Other miscellaneous expenses	142	89	53	59.6		%
	\$922	\$853	\$69	8.1		%
	Nine Months Ended September 30	2018	2017	Year-to-Date Change 9/30/2018 vs. 9/30/2017	Amount	Percent
					(Dollars in millions)	
Salaries and employee benefits	\$1,479	\$1,395	\$84	6.0		%
Net occupancy expense	249	257	(8)	(3.1)		%
Furniture and equipment expense	243	246	(3)	(1.2)		%
Outside services	141	124	17	13.7		%
FDIC insurance assessments	71	81	(10)	(12.3)		%
Professional, legal and regulatory expenses	92	70	22	31.4		%
Marketing	71	70	1	1.4		%
Credit/checkcard expenses	44	39	5	12.8		%
Branch consolidation, property and equipment charges	8	13	(5)	(38.5)		%
Visa class B shares expense	12	8	4	50.0		%
Provision (credit) for unfunded credit losses	(3)	(10)	7	(70.0)		%
Other miscellaneous expenses	310	278	32	11.5		%
	\$2,717	\$2,571	\$146	5.7		%

Salaries and employee benefits—Salaries and employee benefits include salaries, incentive compensation, long-term incentives, payroll taxes, and other employee benefits such as 401(k), pension, and medical, life and disability insurance, as well as, expenses from liabilities held for employee benefit purposes. Salaries and employee benefits increased for the third quarter and first nine months of 2018 compared to the same periods in 2017. The primary drivers of the increases were higher severance charges, annual merit increases and higher production-based incentive expenses, partially offset by staffing reductions. Severance charges totaled \$54 million and \$7 million for the first nine months of 2018 and 2017, respectively. Full-time equivalent headcount from continuing operations decreased to

19,869 at September 30, 2018 from 21,391 at September 30, 2017, reflecting the impact of the Company's efficiency initiatives implemented as part of its strategic priorities.

Net occupancy expense—Net occupancy expense includes rent, depreciation and amortization, utilities, maintenance, insurance, taxes, and other expenses of premises occupied by Regions and its affiliates. Net occupancy expense decreased in the third quarter and the first nine months of 2018 compared to the same periods of 2017 primarily due to hurricane-related branch damage, hurricane preparedness and other storm-related charges incurred in the third quarter of 2017. Also contributing to the decreases were declines in rent expense and depreciation.

Outside services—Outside services consists of expenses related to routine services provided by third parties, such as contract labor, servicing costs, data processing, loan pricing and research, data license purchases, data subscriptions, and check printing. Outside services increased during the third quarter and the first nine months of 2018 compared to the same periods of 2017 primarily



Table of Contents

due to increased servicing costs related to point-of-sale lending through third parties and additional expenses recorded related to a new Wealth Management platform.

FDIC insurance assessments—FDIC insurance assessments decreased in the third quarter and the first nine months of 2018 compared to the same periods of 2017 as a result of higher net income, sale of troubled debt restructured loans during the first quarter of 2018, and issuances of unsecured senior bank notes during the first and third quarters of 2018.

Professional, legal and regulatory expenses—Professional, legal and regulatory expenses consist of amounts related to legal, consulting, other professional fees and regulatory charges. Professional, legal and regulatory expenses increased during the third quarter and the first nine months of 2018 compared to the same periods in 2017 due to higher consulting fees related to implementation of strategic priorities and litigation-related costs.

Provision (credit) for unfunded credit losses—Provision (credit) for unfunded credit losses is the adjustment to the reserve for unfunded credit commitments, which can fluctuate based on the amount of outstanding commitments and the level of risk associated with those commitments. A provision for unfunded credit losses is primarily due to increased commitments, while a (credit) for unfunded credit losses is primarily due to reduced levels of estimated risk for commitments.

Other miscellaneous expenses—Other miscellaneous expenses include expenses related to communications, postage, supplies, certain credit-related costs, foreclosed property expenses and mortgage repurchase costs. Other miscellaneous expenses increased during the third quarter and the first nine months of 2018 compared to the same periods of 2017 primarily due to the contribution to Regions' charitable foundation, offset by decreased valuation charges associated with other real estate and lower non-service cost related pension and other postretirement benefits expense resulting from a settlement charge recorded in the second quarter of 2017.

**INCOME TAXES**

The Company's income tax expense from continuing operations for the three months ended September 30, 2018 was \$85 million and \$138 million for the three months ended September 30, 2017, resulting in effective taxes rates of 18.7 percent and 30.8 percent, respectively. Income tax expense from continuing operations for the nine months ended September 30, 2018 was \$302 million compared to income tax expense of \$398 million for the same period in 2017, resulting in effective tax rates of 20.7 percent and 30.2 percent, respectively. The effective tax rate is lower in both current periods due to Tax Reform enacted in December 2017 that reduced the federal statutory rate from 35 percent to 21 percent effective January 1, 2018. The Company expects the full-year effective tax rate will be approximately 21 percent for 2018.

Many factors impact the effective tax rate including, but not limited to, the level of pre-tax income, the mix of income between various tax jurisdictions with differing tax rates, net tax benefits related to affordable housing investments, bank-owned life insurance, tax-exempt interest, and nondeductible expenses. In addition, the effective tax rate is affected by items that may occur in any given period but are not consistent from period-to-period, such as the termination of certain leveraged leases, share-based payments, valuation allowance changes and changes to unrecognized tax benefits. Accordingly, the comparability of the effective tax rate between periods may be impacted. At September 30, 2018, the Company reported a net deferred tax asset of \$231 million compared to a net deferred tax asset of \$163 million at December 31, 2017. The increase in the net deferred tax asset was primarily due to an increase in the deferred tax asset related to the unrealized losses on available for sale securities and derivative instruments, and was partially offset by an increase in the deferred tax liability related to employee benefits and a decrease in the deferred tax asset related to state net operating losses and federal tax credits.

**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. Morgan Keegan was sold on April 2, 2012.

Regions' results from discontinued operations are presented in Note 2 "Discontinued Operations" to the consolidated financial statements. The three and nine months ended September 30, 2018 income from discontinued operations included the gain associated with the transaction of \$281 million (\$196 million after tax).



Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to pages 85 through 88 included in Management's Discussion and Analysis.

Item 4. Controls and Procedures

Based on an evaluation, as of the end of the period covered by this Form 10-Q, under the supervision and with the participation of Regions' management, including its Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that Regions' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective. During the quarter ended September 30, 2018, there have been no changes in Regions' internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Regions' internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Information required by this item is set forth in Note 13, "Commitments, Contingencies and Guarantees" in the Notes to the Consolidated Financial Statements (Unaudited) in Part I. Item 1. of this report, which is incorporated by reference.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information concerning Regions' repurchases of its outstanding common stock during the three month period ended September 30, 2018, is set forth in the following table:

## Issuer Purchases of Equity Securities

Period	Transaction Type	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs
July 1-31, 2018	Open Market	9,146,099	\$ 18.48	9,146,099	\$1,861,835,124
August 1-31, 2018	Open Market	21,423,230	\$ 19.23	21,423,230	\$1,449,630,759
August 1-31, 2018	Contractual Repurchase Agreement <sup>(1)</sup>	29,075,805	\$ 18.51	29,075,805	\$749,630,759
September 1-30, 2018	Open Market	—	\$ —	—	\$749,630,759
Total 3rd Quarter <sup>(2)</sup>		59,645,134	\$ 18.73	59,645,134	\$749,630,759

These shares represent the initial shares received under the terms of a contractual repurchase agreement and reflect approximately 80 percent of the total shares to be repurchased upon final settlement 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 terms and conditions of the contractual repurchase agreement. On October 24, 2018, the transaction was settled and the Company received an additional 8.8 million shares at no additional cost, which have not been reflected in the table above. The average price paid per share represents the actual price paid per share based upon final settlement of the contractual repurchase agreement, inclusive of the discount. The full price paid per the contractual repurchase agreement of \$700 million has been deducted from the "Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs" column.

(1) Company received an additional 8.8 million shares at no additional cost, which have not been reflected in the table above. The average price paid per share represents the actual price paid per share based upon final settlement of the contractual repurchase agreement, inclusive of the discount. The full price paid per the contractual repurchase agreement of \$700 million has been deducted from the "Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs" column.

(2) The total average price paid per share was determined, consist with the discussion in footnote (1), by including the 8.8 million additional shares received on October 24, 2018 at no additional cost.

Regions' Board authorized a new \$2.031 billion common stock repurchase plan, permitting repurchases from the beginning of the third quarter of 2018 through the end of the second quarter of 2019. As of September 30, 2018, Regions has repurchased approximately 59.6 million shares of common stock at a total cost of \$1.3 billion under this plan, which includes the 29.1 million shares initially received and full price paid of \$700 million under the contractual repurchase agreement. The counterparty to the contractual repurchase agreement closed the transaction on October 24, 2018, and the Company subsequently received 8.8 million shares, at no additional cost. The Company also continued

to repurchase shares on the open market under its 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.

#### Restrictions on Dividends and Repurchase of Stock

Holders of Regions common stock are only entitled to receive such dividends as Regions' Board may declare out of funds legally available for such payments. Furthermore, holders of Regions common stock are subject to the prior dividend rights of the holders of Regions preferred stock then outstanding.

Regions understands the importance of returning capital to shareholders. Management will continue to execute the capital planning process, including evaluation of the amount of the common dividend, with the Board and in conjunction with the regulatory supervisors, subject to the Company's results of operations. Also, Regions is a BHC, and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

On November 1, 2012, Regions completed the sale of 20 million depositary shares, each representing a 1/40th ownership interest in a share of its 6.375% Non-Cumulative Perpetual Preferred Stock, Series A, par value \$1.00 per share ("Series A Preferred Stock"), with a liquidation preference of \$1,000 per share of Series A Preferred Stock (equivalent to \$25 per depositary share). The terms of the Series A Preferred Stock prohibit Regions from declaring or paying any dividends on any junior series of its capital stock, including its common stock, or from repurchasing, redeeming or acquiring such junior stock, unless Regions has declared and paid full dividends on the Series A Preferred Stock for the most recently completed dividend period. The Series A

Table of Contents

Preferred Stock is redeemable at Regions' option in whole or in part, from time to time, on any dividend payment date on or after December 15, 2017, or in whole, but not in part, at any time within 90 days following a regulatory capital treatment event (as defined in the certificate of designations establishing the Series A Preferred Stock).

On April 29, 2014, Regions completed the sale of 20 million depositary shares, each representing a 1/40th ownership interest in a share of its 6.375% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series B, par value \$1.00 per share ("Series B Preferred Stock"), with a liquidation preference of \$1,000 per share of Series B Preferred Stock (equivalent to \$25 per depositary share). The terms of the Series B Preferred Stock prohibit Regions from declaring or paying any dividends on any junior series of its capital stock, including its common stock, or from repurchasing, redeeming or acquiring such junior stock, unless Regions has declared and paid full dividends on the Series B Preferred Stock for the most recently completed dividend period. The Series B Preferred Stock is redeemable at Regions' option in whole or in part, from time to time, on any dividend payment date on or after September 15, 2024, or in whole but not in part, at any time following a regulatory capital treatment event (as defined in the certificate of designations establishing the Series B Preferred Stock).

Table of Contents

Item 6. Exhibits

The following is a list of exhibits including items incorporated by reference

- 3.1 Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q Quarterly Report filed by registrant on August 6, 2012.
- 3.2 Certificate of Designations, incorporated by reference to Exhibit 3.3 to Form 8-A filed by registrant on November 1, 2012.
- 3.3 Certificate of Designations, incorporated by reference to Exhibit 3.3 to the Form 8-A filed by registrant on April 28, 2014.
- 3.4 By-laws as amended and restated, incorporated by reference to Exhibit 3.2 to Form 8-K Current Report filed by registrant on July 25, 2018.
- 10.1 Confirmation - Accelerated Share Repurchase Agreement, dated August 27, 2018, between registrant and Morgan Stanley & Co. LLC, incorporated by reference to Exhibit 10.1 to Form 8-K Current Report filed by registrant on August 27, 2018.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data File

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 7, 2018 Regions Financial Corporation

/S/ HARDIE B. KIMBROUGH, JR.  
Hardie B. Kimbrough, Jr.  
Executive Vice President and Controller  
(Chief Accounting Officer and Authorized Officer)